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THE FINANCE-CREDIT SYSTEM OF CZECHOSLOVAKIA

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THE FINANCE CREDIT SYSTEM OF CZECHOSLOVAKIA

FOREWORD

The universal historical victory of the Soviet Union over Hitlerite Germany played a tremendous role in the life of the states in central and southeast Europe, including Czechoslovakia. The Czechs and Slovaks, like the other nations of these countries, received the opportunity for the first time to cast off the yoke not only of foreign imperialists and the fascist occupation forces but also of their active henchmen, their reactionary ruling circles.

The heavy oppression of the Hitlerites who took away the Czechoslovak national independence and robbed her, the treason of the great bourgeoisie and landlords, and the extreme intensification of the exploitation of the workers aggravated all the class controversies in the country. In severe struggle with the landlords and the bourgeoisie the masses of the people, with the hegemony of the working class and under the leadership of the Communist Party, broke the resistance of the reactionary segments and established a new state order -- the order of the people's democracy.

In its development the people's democracy as a new form of the political organization of society goes through different stages and as a result its class content changes. At the first stage the people's democratic revolution in Czechoslovakia was directed against imperialism and German fascism and against the landlords and the great bourgeoisie. The second stage is characterized by the complete destruction of the forces of internal reaction, the establishment of the dictatorship of the working class in the form of the people's democracy, and the construction of the principles of socialism.

The class arrangement of forces also developed in conformity with the nature of the development of the revolution. The leader of the antifascist struggle was the working class, led by the Communist Party that had been tested in combat. The working class formed a mighty antifascist coalition -- a broad national front of the struggle against fascism uniting the working peasantry, the intellectuals, and the petty and a certain part of the middle bourgeoisie of the city. During the period of the antifascist movement the solid union between the working class and the peasantry developed on the initiative of and under the leadership of the working class. This union has been expanding steadily and becoming stronger.

Relying upon the objective economic law of the necessary conformity of production relations to the nature of the productive forces, people's democratic Czechoslovakia carried out fundamental socio-economic changes. Having broken the capitalist shackles that retarded the development of productive forces, she laid the beginning to the creation of a socialist basis which, during the course of the further complete re-organization, is rapidly growing and becoming consolidated.

One of the most important socio-economic changes effected at the first stage of the people's democratic revolution was the agrarian reform. The beginning of the agrarian reform was laid by the governmental decree of 21 June 1945 concerning the confiscation and division of real estate belonging to German and Hungarian landlords, and to traitors and betrayers of the Czech and Slovak peoples. As a result of the implementation of this decree the people's democratic state and the working peasantry received 1.6 million ha of arable land and about 1.3 million ha of forest land (J. Kotatko,

Pozemkova reforma v Ceskoslovensku, 1949, Prague). Somewhat later (11 July 1947), on demand by the Communist Party of Czechoslovakia, a law to limit large-scale land owning was adopted, despite the resistance of reactionary forces. About one million ha of land which belonged to the landlords and the bourgeoisie were distributed among agricultural workers, hired farmhands, and peasants owning little land.

These measures inflicted a crushing blow on large-scale land owning and contributed to the strengthening of the union between the working class and the working peasantry.

Simultaneously with the agrarian reform the working class carried on the struggle to socialize the fixed assets of production. On 24 October 1945 the decree to nationalize mines and certain industrial enterprises, joint stock banks, and private insurance associations was adopted. The state took over possession of the entire power, mining, metallurgical, and war industry, a considerable part of the chemical industry, and enterprises of machine building (with more than 500 employees), textile and leather footwear industry (with more than 400 employees), and the paper and wood processing industry (with more than 300 employees).

Thus the nationalization transferred to the state enterprises employing 63% of the total number of workers and employees in the country and producing about 75% of the entire industrial production (Statisticky zpravodaj, Nos 5-6, 1949, page 185).

But because of the fact that the basis of nationalization was the number of workers and employees employed at the enterprise, such branches as the building material industry, sewing, flour, food, partly the textile, leather, and other industries remained almost completely in the hands of the bourgeoisie.

This lowered the proportion of the all-national sector. Nevertheless at the end of 1948 with respect to the number of workers and employees, the socialized sector had already encompassed almost 80% of the Czechoslovak industry (ibid).

The nationalization of the joint-stock banks transferred into the hands of the people's democratic state the very important apparatus of accounting and control of production and circulation which contributed to the establishing of state control of the country's economic life.

The people's democratic state directed funds of the credit system to render complete support to the socialized economy, using them in the interests of the steady growth of the productive forces and the raising of the workers' standard of living.

The conversion of large-scale industry, joint-stock banks, and insurance associations into state, all-national property broke the economic power of the reactionary forces and greatly weakened their material base within the country. The agrarian reforms liquidated large-scale landlord land owning and feudal survivals in the rural areas and improved the situation of the working peasantry. The economic and political victories of the first stage of the people's democratic revolution created the possibility of changing over to the new stage -- the stage of socialist revolution.

The process by which the people's democratic revolution grew into a socialist revolution took place in an environment of severe class struggle. Having their own parties, press, and representatives in the government, and relying upon the support of Anglo-American imperialists, the forces of internal reaction attempted with all their efforts to overthrow the regime of the people's democracy.

During the course of intense struggle the working class, under the leadership of the Communist Party, unmasked the traitorous conduct of the bourgeoisie, the perfidious, subversive activity of its leaders, and achieved the political isolation of the bourgeoisie, strengthened its union with the peasantry and, together with it, in February 1948 dealt the bourgeoisie a decisive blow that completely removed it from authority. It also destroyed the system of bourgeois agents which was at work in the country's workers movement in an attempt to split and weaken the working class. The Communist Party of Czechoslovakia, having revealed the positions of the rightist social democrats, liquidated the split in the workers movement. In June 1948 on the ideological basis of Marxist-Leninist theory, the left wing of the Czech Social Democratic Party united with the Communist Party. This revolutionary unity of the Czechoslovak working class played a tremendous role in consolidating the regime of the people's democracy.

The establishment of the dictatorship of the proletariat created a real basis for the continuation of the socio-economic reforms begun at the first stage of the people's democratic revolution. Large-scale land owning was completely liquidated. According to the law of 21 March 1948 all plots of land of more than 50 ha were sold to the state by a compulsory procedure and transferred to peasants with little land -- poor and medium peasants. By this method from 1945 through 1949 more than 4 million ha, that is, more than half the total land in agricultural use in Czechoslovakia, was taken away from large-scale landlords (Hova mysl, No 12).

Reforms in the field of economics which were very important with respect to their revolutionary essence and significance were

the further nationalization of industrial enterprises and wholesale domestic trade, and the state monopoly of foreign trade. They completely destroyed the domination of monopoly and completely removed the country from imperialistic enslavement. Thus a broad path was opened up in people's democratic Czechoslovakia for the action of the economic laws of socialism.

After nationalizing industry and other branches of the national economy, the working class achieved the dominant position of the socialist way of life. The socialist enterprises of Czechoslovakia now employ 96.4% of all workers and employees in industry. Socialist enterprises yield 99.6% of industrial production. In rural areas the arable area on farms operating on socialist principles exceeds 43%; in wholesale domestic and foreign trade this figure is 100%.

The second way of life or the petty goods way of life: this includes chiefly poor and medium farms in the rural areas, and in urban areas it includes handicraftsmen and tradesmen who do not exploit other people's labor.

The third way of life is the private capital way of life. It is represented by small-scale entrepreneurs in industry and trade, and primarily rich peasants in rural areas who use hired labor. The action of the economic laws of capitalism here is sharply limited by the action of the economic laws of socialism, thanks to the leading role of the socialist way of life, which is steadily growing and becoming stronger.

The petty goods way of life is steadily decreasing because of the increasing unification of small-scale peasant farms into agricultural cooperatives. However despite the fact that as the

socialist way of life grows in the rural areas and as a number of measures are carried out, the number of rich peasant farms has been reduced and their share in agricultural production is considerably less, rich peasants continue to represent a definite force. Rich peasants show rapid opposition to the formation of cooperatives of working peasants. The merciless struggle against the rich peasantry as a class is the pledge of the success of the further socialist reorganization of the Czechoslovak rural areas during the transitional period between capitalism and socialism. In addition, as pointed out by the first secretary of the Central Committee of the Communist Party of Czechoslovakia, Comrade Novotny, "socialist production relations and labor in the socialist collective change and finally re-educate a considerable number of those who previously stood on class positions that were foreign to us. The criterion of this, of course, cannot be verbal statements, but only deeds, and primarily honest, productive labor" (A. Novotny, "Present-Day Status and Tasks of the Party," Kommunist [Communist], No 9, 1956, page 47).

The national economy of people's democratic Czechoslovakia is developing according to plan. The first state Two-Year Plan for the restoration of the national economy (1947-1948) was fulfilled successfully. In October 1948 industrial production was 110.3% of the 1937 level. The volume of industrial production increased by 45.9% in the 2 years, and labor productivity increased by 25.2%, and the national income increased by 22%. With an overall increase in industrial production by the end of 1948 of 10.3% as compared with 1937, the production of producer goods increased by more than 40%, including the production of the machine building and metallurgical industry by more than 25%; power industry, more than twice; chemical

industry, more than 30%; etc (Statistický zpravodaj, Nos 5-6, 1949, page 215).

In agriculture the two-year plan for the restoration of the national economy was not fulfilled because of the severe drought of 1947 and the sabotage committed by the rich peasants. The indexes set down by plan for the construction industry, where capitalist elements still retained strong positions, were also not realized.

Having basically completed the restoration of the country's economy, the workers of Czechoslovakia, under the leadership of the Communist Party and the people's democratic government, undertook the fundamental re-organization of the national economy on the basis of five-year plans. In the First Five-Year Plan the plan for the construction of the basis of socialism in the Czechoslovak Republic (1949-1953), which was adopted by the National Assembly on 27 October 1948, the principal attention was paid to the fundamental re-organization of the branch structure of industry by means of the chief development of heavy industry especially machine building, the expansion of the country's own raw material and power base, the steady rise in the technical level of industry, the acceleration of the industrialization of economically backward areas, and the raising of the worker's standard of living. The change in the branch structure of industry was a very important factor in guaranteeing the technical and economic independence of Czechoslovakia from the capitalist world and the strengthening of her economic collaboration with the countries of the socialist camp.

During the years of the First Five-Year Plan the gross production of industry in the republic increased by 102% and exceeded the prewar level by 119%, or when converted to a per capital basis, 147%.

The most rapid development was in the branches of heavy industry as the basis of the re-organization of the national economy. During the period from 1949 to the end of 1954 the production of producer goods increased by 126%, and of consumer goods, 89%. The production of the machine building industry increased by 3.3 times during the years of the five-year plan, and its proportion in overall industrial production increased from 17% in 1948 to 28% in 1953 (Vysledky plneni prvnio petiletého planu rozvoje narodního hospodarství CSR v letech 1949-1953, 1954, Prague, page 5). The machine building industry became the leading and determining branch of the country's entire national economy.

The successful fulfillment of the five-year plan moved Czechoslovakia into the ranks of the most important industrial states of Europe. With respect to the production of electric power per capita the Czechoslovak Republic has outstripped France and Italy, and with respect to production of steel, Sweden and France, and almost caught up with Great Britain (A. Novotny, Otchetnyy doklad TsK KPCh X s'yezdu KPCh i dal'neyshye zadachi partii [Report of the Central Committee of the Communist Party of Czechoslovakia to the Tenth Congress of the Communist Party of Czechoslovakia and the Further Tasks of the Party], 1955, Gospolitizdat, page 27).

The production of the principal consumer goods also changed essentially during the years of the five-year plan. The production of cotton fabrics increased by 24% during the five-year period; linen fabrics, 38%; silk fabrics, 67%; clothing, by 3 times; etc (Voprosy ekonomiki [Problems of Economics], No 5, 1955, page 82). With respect to the production of many industrial mass consumer goods per capita, Czechoslovakia occupies one of the first places in the world.

Major successes have been achieved in the socialist re-organization of agriculture. At the end of the five-year period the country had 8,324 united agricultural cooperatives which cultivated 33% of the republic's arable land. United agricultural cooperatives proved by deed the advantages that collective farms have over individual ones. In 1954 the average harvest yield of wheat on cooperative farms was 3.7% higher than on individual farms; wheat, 4.3%; barley, 10.1%; oats, 12%;etc (Voprosy ekonomiki, No 5, 1955, page 84).

In the socialist re-organization of agriculture of Czechoslovakia a very important role is played by state agricultural farms created on the basis of nationalized large-scale landlord estates.

In 1955 state farms and united agricultural cooperatives of higher types cultivated more than 43% of the arable land (Rude pravo, 15 February 1956). The people's democratic state renders a great amount of assistance to agricultural cooperatives and to the working peasantry through machine tractor stations which are the key positions of the socialist re-organization of agriculture. There are 256 machine tractor stations in Czechoslovakia which have 18,900 tractors and many other kinds of farm machinery.

But despite the undisputed achievements the development of agriculture is still lagging considerably behind the other branches of the national economy and is not completely providing for the growing needs of the population for food products or of the food and light industry for raw material.

The Communist Party and the government of Czechoslovakia have carried out a number of important measures aimed at eliminating

the lag in agriculture. A decision of the Tenth Congress of the Communist Party of Czechoslovakia (June 1954) stipulated the expansion of arable acreage during 2 to 3 years by no less than 200,000 ha; the increase of wheat harvest yield by 12% per ha, rye 10%, potatoes 15%, and sugar beets 18%; increase in animal husbandry production: meat 26%, milk 31%, etc. The total number of tractors in agriculture must be increased by 2 times, grain combines more than 6 times, beet harvesting combines 20 times, and flax combines 6 times. This will make it possible to make a considerable increase in the mechanization of agricultural operations and thus in the labor productivity in agriculture and animal husbandry. The further development of agriculture will greatly improve the extent to which workers are supplied with food products and industry with raw material.

The Plenum of the Central Committee of the Communist Party of Czechoslovakia which was held in February 1955 emphasized the importance of the struggle for the unconditional fulfillment of the decisions of the Tenth Congress with respect to the development of agriculture. "By the fulfillment of the directives of the Tenth Congress concerning the considerable increase of agricultural production during the next 2 to 3 years, with the simultaneous complete concern for the development of heavy industry, the basis for the development of the entire national economy," the decision of the Plenum states, "we shall strengthen the economic might of our Motherland and provide for the steady rise in the material and cultural level of the workers (Rude pravo, 15 February 1955).

Thanks to the daily concern of the Communist Party and the government there has been a steady improvement in the life of the Czechoslovak nation. During the years of the five-year plan the national income increased by 59% in comparable prices. Three-fourths

of the national income go to satisfy the material and cultural needs of society and one-fourth toward the further expansion of socialist production. From year to year there has been an increase in the real wages of workers and employees and the income of the working peasantry. During the five-year period the average monthly wages of workers and employees employed in the national economy increased by 34%. In industry the wages of laborers were 56% higher in 1953 than in 1948, and of workers and employees, 47% (Voprosy ekonomiki, No 5, 1955, page 87).

Much attention is paid in Czechoslovakia to the development of public health, public education, science, and culture. During the years of the First Five-Year Plan there was a considerable expansion of the system of hospitals and polyclinics and an increase in the number of physicians, and many rest homes and sanatoriums, and middle and higher educational institutions were opened. In 1952-1953 the Czechoslovak Academy of Sciences, the Slovak Academy of Sciences, and the Czechoslovak Agricultural Academy were opened. The country has 175 scientific research institutes.

In the course of the socialist industrialization the positions of socialism have been strengthened in the country and the nature of the country's further economic development has been determined. The preferential growth of producer goods production in Czechoslovakia is the basis of expanded reproduction. For example in 1955 the volume of industrial production was 143% more than in 1937, with the production of producer goods increasing by 172% and consumer goods by 112%. The share of industrial production in the gross production increased from 57% in 1937 to 70% in 1955 (Pravda [Truth], 14 June 1956).

Thanks to the correct policy of the Communist Party of Czechoslovakia, the policy of industrialization, large-scale industry has now been created in Slovakia, which in the past was industrially underdeveloped. This has considerably consolidated the democratic order of the country, the fraternal union of the Czech and Slovak peoples, and has intensified the economic might of the Republic.

Still more important tasks in the field of the development of the Czechoslovak national economy have been posed for the Second Five-Year Plan, the fulfillment of which will help fundamentally to complete the creation in the country of the material and production base of socialism.

The draft plan of directives of the Central Committee of the Communist Party of Czechoslovakia concerning the Second Five-Year Plan for the development of the national economy in 1956-1960 which was approved at the conference of the Communist Party of Czechoslovakia (June 1956) anticipates the further growth of industry (with preferential growth of machine building) and agriculture, and an increase in production of mass consumer goods.

The successful development of Czechoslovak national economy is to a large extent assisted by her economic and cultural collaboration with the countries of the camp of socialism, especially the Soviet Union. The proportion of the USSR in Czechoslovak foreign trade has increased greatly. Whereas in 1937 it was one per cent, in 1948 it was 16%, and in 1950, 29%. In 1954 the mutual commodity turnover of these countries will be more than twice the turnover in 1948 (Chekhoslovatskiy ekonomicheskiy byulleten' [Czechoslovak Economic Bulletin], No 303, 1955, page 3).

The scientific and technical collaboration between the USSR and the Czechoslovak Republic is also becoming stronger. For example the Soviet Union helped Czechoslovakia to create the scientific experimental base for the development of research in the field of nuclear physics and the use of atomic power for peaceful purposes. The USSR is also rendering the Czechoslovak Republic considerable technical assistance in the development of various branches of the economy.

The completely developing economic and cultural links between the states of the socialist camp are consolidating their planned economy and creating the opportunities for the broader co-ordination of the national economic plans. They are aimed at rendering mutual fraternal assistance and they contribute to the most rapid development of productive forces and the final victory of socialism in all the people's democracies.

A tremendous role in the construction of the socialist economy is played by money, credit, and finance. In order for a people's democracy to be able to give active assistance to the planned distribution of the social product for the benefit of the socialist sector, to mobilize monetary resources and use them to finance the national economy, social-cultural measures, and to strengthen the country's combat potential, and also to control effectively the activity of private capital, the state must possess a finance-credit system.

The Czechoslovak people's democratic state, having taken money, credit, and finance into its hands, has placed them at the service of the socialist development of the national economy and the raising of the people's material and cultural standard of living.

Making creative utilization of the historic experience of the Soviet Union and taking into consideration the peculiarities in the development of the country and its economic and political conditions the workers of Czechoslovakia like those in a number of other countries in Europe and Asia, are confidently moving toward socialism along their own path.

CHAPTER I. MONETARY CIRCULATION IN PEOPLE'S DEMOCRATIC CZECHOSLOVAKIA

1. Monetary Circulation in Bourgeois-Landlord Czechoslovakia

The Great October Socialist Revolution which opened up a new era in the history of the development of society had a tremendous influence upon the fate of the Czechoslovak people and inspired Czechs and Slovaks to struggle for their freedom and independence. As a result of this national liberating struggle Czechoslovakia broke off from the former Austro-Hungarian monarchy and a republic (bourgeois) was proclaimed in Prague on 28 October 1918.

The Czechoslovak (bourgeois) republic was an industrial, agrarian country with a large working class. Industrially the country had outstripped other states in central and southeastern Europe. The leading place in the country was occupied by light industry (textile, footwear, glass, sewing, etc), which however depended completely upon the import of foreign raw material and was oriented primarily toward the needs of the foreign market. Machine building, the chemical industry, and certain other branches of heavy industry were also developed and played an important role in foreign markets. The war industry grew especially rapidly.

To a considerable extent Czechoslovak heavy industry was subordinate to foreign capital and developed in the interests of foreign monopolies.

Industrial enterprises were concentrated chiefly on the territory of Czechia; Slovakia was a backward, agrarian part of the country.

The economy of bourgeois Czechoslovakia reached a high level of concentration and centralization of production and capital. According to data of the 1930 census, small-scale enterprises employing up to 5 workers (89.2% of all enterprises) employed 26.2% of the total number of workers in industry as a whole. These enterprises had only 10.4% of the total capacity of all motors. At the same time at enterprises employing more than 20 workers (3.4% of all enterprises), 62.2% of the total number of workers in industry as a whole were employed. These enterprises accounted for 83% of the total capacity of motors on hand. Finally 16 enterprises, each of which employed more than 2,500 workers, concentrated 15.5% or almost one-sixth of the total capacity of all motors. In the metal industry 20.9% of the workers employed in that branch worked at very large-scale enterprises. At the same time these enterprises accounted for 55.6% (that is, more than one-half) of the total capacity of motors on hand in that branch of industry (Jan Ulrych, Zaklady marxisticke ekonomie, 1946, Prague, page 147).

The metallurgical and metal processing branches of industry were distinguished by the highest degree of monopolization. Of 3.7 billion korunas of the entire fixed capital, 3.4 billion korunas or 91% belonged to monopolies here and 0.3 billion korunas or 9% belonged to enterprises which were not part of monopolistic

associations (K. Malecek, Hospodarska diktatura koncernu, 1948, Prague, page 83). In this branch the enterprises of the Skoda munitions concern were prominent.

Monopolization encompassed the leather footwear (Bata Trust) and food industry, particularly the country's most important branch, sugar production. Monopolization became especially intensive after the Hitlerites occupied Czechoslovakia.

The key positions in the Czechoslovak economy were seized by foreign monopolists, who in 1941 controlled one-third of the fixed capital of the enterprises -- about 3.5 billion korunas out of 10 billion korunas (A. Khachaturov, Sotsial'no-ekonomicheskiye preobrazovaniya v narodnodemocraticheskoy Chekhoslovakii [Social Economic Reforms in People's Democratic Czechoslovakia], 1954, Academy of Sciences USSR, page 41).

The development of the economy of bourgeois Czechoslovakia was determined by the action of the economic laws of capitalism which were the reason for such processes in that country as the growth of the maximum profits of monopolies which was linked primarily with the munitions race, the further monopolization in the national economy, the intensification of the dominance of the financial oligarchy, the introduction of Czechoslovak monopoly capital into the economy of neighboring agrarian countries, and the subordination of a number of very important branches to monopolies of imperialist powers. These processes led to the steady lowering of the standard of living of the working class and to the ruin of the working peasantry.

The country's money and monetary system were placed at the service of monopolists and were used by the latter as one of the means of guaranteeing the highest profits.

Czechoslovakia emerged from the imperialist war of 1914-1918 nominally a victor country but in an economic and financial respect it had suffered as strongly as defeated states. The disintegrated Austro-Hungarian monarchy left Czechoslovakia a heavy inheritance. The destruction caused by the war and the militarization of the entire economy reached a tremendous extent and the full brunt of it descended onto the shoulders of the working masses.

Monetary circulation came to complete disorder. Inflation which had taken on tremendous scope under the former Austro-Hungarian monarchy because of the financing of the war increased at rapid rates.

In order to regulate monetary circulation in the Czechoslovak Republic the law of 25 February 1919 carried out a monetary reform of an obvious class nature. It took into consideration primarily the Czech bourgeoisie and was carried out to the detriment of the workers.

The monetary reform was carried out as follows. The state borders were closed suddenly. Immediately after that it was announced that all banknotes of the former Austro-Hungarian bank which were within the territory of the Czechoslovak Republic were to be stamped. In this process the large sums of money submitted by the bourgeoisie for stamping were not confiscated from them. Only 50% of these sums were held back and were returned in the form of bonds on a compulsory loan which subsequently were accepted in payment of the tax on capital (A. Chanal, Monnaie et economie nationale en Tchechoslovaquie, 1918-1928, Paris, 1929, pages 82-85, 89).

Deposits in amounts less than 300 korunas or funds on operating accounts of state and certain social and charitable organizations were stamped completely without any money being held back. The balances on the operating accounts in branches of the former Austro-Hungarian Bank were reduced by 50%. During the time when the banknotes were being stamped a debt and bank moratorium was declared in the country.

As a result of the monetary reform out of a total sum of 9,420,000 korunas in circulation 2,781,000 korunas or about 30% were confiscated (ibid, page 89). The Czech bourgeoisie kept the monetary funds that they had accumulated during the war and used them to obtain colossal profits by means of the further intensification of the exploitation of the workers.

From June 1919 through July 1920 the stamped banknotes were exchanged for new Czech currency. But even after the exchange the amount of money in circulation was still excessive. The metal and exchange reserves of the Bank Administration were insignificant. The bank was organized on 12 May 1919 as part of the Ministry of Finance for the control and regulation of monetary circulation. The Bank Administration received the right to issue banknotes in limited amounts. In order to guarantee the stability of monetary circulation it was prohibited from giving direct credit to state organs. In the main they consisted of the gold reserve of the former Austro-Hungarian Bank in the amount of 193 million korunas. The bulk of money in circulation remained unbacked by monetary metal and was carried on the balance sheet as a state indebtedness to the Bank Administration. Originally this debt reached 10.1 billion korunas, but then dropped (A. Chanal, op. cit., page 90) Its reduction took place after the government

in April 1920, introduced the tax on capital and increase in its value. The proceeds from this tax were used to pay off the debt. By the time the National Bank was formed (1926) the state debt to the bank was about 5.1 billion korunas (ibid, page 233). The state's indebtedness to the National Bank was reduced in 1932 by the amount of 10 koruna and 20 koruna banknotes in circulation which had been issued to replace small change, and in 1934 as the result of the revaluation of the country's gold reserve. As of 1 August 1937 the debt was still more than 2 million korunas.

The tremendous expenses for the army, military construction and the financial support of industrialists and bankers were covered by the government with funds on the state budgets which from year to year consisted simply in having the expenses exceed the income.

The budgetary deficits of billions of korunas in 1919-1923 were covered by issuing state loans chiefly in the form of short term treasury bonds. The increase of the current debt with the complete exhaustion of internal sources of income seriously threatening the stability of the national currency.

For the partial consolidation of the current debt the government of Czechoslovakia in 1925 resorted to a foreign 7.5% loan in the United States in the amount of 750 million korunas. In 1926 the budget was balanced with the aid of a still greater increase in taxes levied on workers in urban and rural areas.

But these measures made it possible to stabilize the koruna only for a short period -- from 1928 until the worldwide depression of 1929-1933.

In Czechoslovakia the depression primarily struck foreign trade and through it gradually extended to the other branches of the economy causing a colossal increase in unemployment. The mass withdrawal of deposits from banks, bankruptcies, and the pumping of capital out of the country reached tremendous scope; a credit crisis followed. The state of the country's payment balance sheet became much worse. The unfavorable balance for its principal item -- foreign trade -- was 766 million korunas in 1932 (La premiere periode decennale de l'activite de la Banque Nationale de Tchecoslovaquie, 1937, Prague, page 487). The bourgeois government attempted to assuage the critical situation that had been created in the country by obtaining in 1932 a loan in France in the amount of 800 million korunas. However this loan was used not for needs of the national economy but for the further development of the war industry. An exhaustive description of these French loans was given by K. Gottwald, who wrote: "the principal reason for granting this loan is the attempt to strengthen the influence of the French war industry upon Czechoslovakia in general. The French banking groups which must grant this loan are groups of the heavy war industry who own a large part of the Czechoslovak war industry" (K. Gottwald, Sochineniya [Collected Works], Vol 3, pages 16-17).

Whereas by the beginning of 1929 Czechoslovakia had abolished the currency restrictions introduced with the formation of the bourgeois republic by September 1931 the government again confirmed them by establishing a system of issuing authorizations for payments abroad, for credit operations with foreign states, and for the import and export of noble metals.

At the end of 1931 the compulsory handing over to the state of currency received in exchange for the export of goods was introduced. At the beginning of 1932 this regulation was extended also to currency operations linked with the import of goods.

At the end of 1933 and beginning of 1934 the currency resources were exhausted and foreign trade was catastrophically curtailed. The blows dealt by the depression destroyed the policy of budgetary balance and firm currency that had been carried out during the previous pre-depression years at the price of severe limitations and deprivations imposed upon the population.

In January 1934 the koruna in Czechoslovakia was devalued, and its gold content dropped from 0.04458 to 0.03715 g of pure gold, that is, it was devalued by 16 2/3%. The difference from the revaluation of the gold reserve was directed toward reducing the state's indebtedness to the National Bank. The devaluation of the koruna had a weak influence upon the development of export. In 1935 the government introduced a stricter regulation of import and export of National Bank banknotes.

The devaluation of the French and other currencies that followed in the autumn of 1936 as a result of the collapse of the so-called "gold bloc" of which Czechoslovakia was a part pushed the government toward a new revaluation of the koruna. In order to intensify the country's competitive possibilities on the foreign market the government again lowered the gold content of the koruna by 16% (from 0.03715 to 0.03121 g of pure gold).

The difference from the revaluation was used to supplement the exchange portfolio. But the second devaluation of the koruna like the first improved the situation for only a short time.

The subsequent rise in prices of the imported raw material which constituted more than half of all Czechoslovak imports, considerably decreased the effect obtained from this revaluation of the koruna. The owners of enterprises operating for export trade demanded the restitution of their losses. The government granted considerable tax privileges to exporters.

During the depression years the state of the Czechoslovak budget system became still worse. Income fell sharply whereas expenses not only did not decrease but increased greatly. The government attempted to balance the budget and to stabilize the currency but this task was doomed to failure because of the rapid growth of military expenses, expenses to repay the state debt, and finally because of the exhaustion of budgetary resources. Whereas before the depression the state expenses were met chiefly by taxes in 1931 loans began to take on more and more importance, and this led to an increase in the domestic state debt which came to 35.4 billion korunas by the end of 1936.

The country's total state debt including foreign indebtedness (7 billion korunas) and the indebtedness of the National Bank as a result of the 1919 monetary reform (more than 2 billion korunas) came to a tremendous sum by the end of 1936 -- more than 44 billion korunas. During 1936 alone the domestic debt increased by 5.8 billion korunas, and by 1929 by more than 15 billion korunas (Finances publiques 1928-1935, Societe des Nations, Geneve, 1936, XXVII -- Tchecoslovaquie). Until 1936 Czechoslovakia had not known such an increase in debt. The state indebtedness exceeded the national income.

In addition to banks Czechoslovak saving and saving-and-loan offices played a considerable role in the negotiating of loans. Loans began to occupy an important place in bank funds. For example 4 large banks in the country in 1936-1937 concentrated in their hands bonds in the amount of more than 3 billion korunas. In 1936 the rate of exchange of the koruna began to take on a relatively stable nature as a result of the balancing of the budget by means of floating domestic loans.

The official rates of exchange of the British pound and the American dollar in Prague (141.89 Czech korunas per British pound and 28.69 Czech korunas per American dollar in 1937 (National Bank of Czechoslovakia, Bulletin 11, Prague, 1948, page 202) and 141.29 and 28.88 Czech korunas respectively in 1938) were almost equal to the koruna quotations in London and New York (141.53 and 28.65 in 1937, 140.94 and 28.82 in 1938).

The Czechoslovak great bourgeoisie and landlords who were in power in close alliance with foreign imperialists not only robbed the nation but also foully betrayed the interests of their country. This manifested itself especially brilliantly during the period of the Munich agreement (September 1938), when Czechoslovakia was given to Hitler as payment for the pledge to begin war against the USSR. Fearing the development of the national liberating revolutionary movement the ruling clique in Czechoslovakia renounced the aid offered by the Soviet Union and handed over the country to the fascist usurpers for plunder.

During the period of over 6 years of the dominance of the occupying forces German monopolies took into their hands the principal branches of the Czechoslovak national economy. Their capital

investments increased here with exceptional rapidity and reached 1.1 billion korunas in 1941. The German monopolies completely owned enterprises whose fixed capital constituted about 2 billion korunas or 20% of the fixed capital of the entire monopolized industry in Czechoslovakia (K. Malecek, op. cit., pages 114-115). But the actual ownership of German monopoly capital in industry was still greater. German monopoly capital was dominant primarily in the war industry and in the production of cast iron and steel. The notorious concern "Hermann Goering Works" seized the country's entire heavy and war industry. All the Czechoslovak banks directly or indirectly were subordinate to German monopolies and were actually converted into branches of the leading institutes of finance capital of Hitlerite Germany. The country's monetary circulation was completely subordinated to military purposes by the occupying forces. The Czechoslovak bourgeoisie deprived of political independence and crowded into secondary economic positions became the obedient servant of foreign masters and agents of German fascism.

The Hitlerites declared the Reichsmark to be the legal tender. They established a compulsory rate of exchange of mark to koruna in the amount of one mark to 10 korunas. But the actual purchasing power of the Reichsmark was equal to 5-7 korunas. The koruna was devalued by 1/3 and this made it possible for the usurpers to buy up Czechoslovak goods at prices 1/3 cheaper than their actual value (Statni hospodareni za valku a po revoluci, No 3, 1946, Prague, page 72). In addition the occupying forces did not pay for the goods that were exported and they did not intend to pay for them. The sums due were entered on a clearing account which formally was a debt pledge given by Germany. The official rate of exchange of the koruna in other foreign currencies before

September 1940 was supported by the occupying forces at the level of its gold parity (129.72 korunas per British pound and 29.23 korunas per American dollar in 1939; 97.94 korunas and 28.09 korunas respectively in 1940).

The discrepancy between the quotations of the pound and dollar in 1939 and especially in 1940 was explained by the fall in the rate of exchange of the former in Prague as a result of the military situation and the striving to get rid of cash primarily in British pounds.

The rates of exchange of the koruna in Berlin and the mark in Prague coincides. The Hitlerites seized all the gold and foreign currency in the National Bank of Czechoslovakia and used the bank's rich resources converting the occupied country into one of its most important arsenals.

The barbarous methods of the fascist German direct and covert plunder led the Czechoslovak monetary system to a state of disorder. As a result of the steadily developing inflation the koruna was almost completely devaluated, prices rose sharply, and the entire national economy and goods exchange were in a state of disorder.

The large Czechoslovak expenditures to finance the war machine of the occupying forces were made chiefly at the expense of the state budget which was in a state of chronic deficit.

The tremendous budgetary deficits were covered chiefly by issuing paper money. The channels of monetary circulation were filled to overflowing with devalued paper money.

Before the occupation at the end of 1937 there were 8.3 billion Czechoslovak korunas in circulation. In 1938 after the Hitlerites had seized the border Sudetenland in accordance with the Munich conspiracy the monetary circulation in Czechoslovakia increased to 14.3 Czechoslovak korunas (not counting the Sudetenland).

After the complete occupation and partition of the country into the so-called Protectorate (Bohemia and Moravia) and Slovakia the bulk of money in circulation began to grow still more rapidly.

INCREASE IN BULK OF MONEY IN CIRCULATION BY YEARS

In the Protectorate ⁽¹⁾		In Slovakia ⁽²⁾	
as of the end of	billion Czech korunas	as of the end of	billion Slovak korunas
1939	13.9	1939	1.7
1940	15.8	1940	2.1
1941	21.1	1941	2.4
1942	26.0	1942	3.1
1943	42.0	1943	4.0
1944	66.3	1944	8.6
April 1945	96.0	October 1945	17.0

1 -- Statni hospodareni za valku a po revoluci, No 3, page 73

2 -- Ibid, page 90

From 1937 until the occupying forces were routed and the regime of the people's democracy was established in Czechoslovakia the amount of money in circulation increased by more than 14 times whereas the volume of production and trade was sharply curtailed. As compared with 1937 the industrial production by that time had

dropped to 55-57%, the harvest of grain crops to 43%, the number of head of large horned cattle to 80%, hogs to 75%, and poultry to 59%, (L. Chmela, Hospodarska okupace Ceskoslovenska jeji metody a dusledky, 1946, Prague).

The occupation caused inflationary glutting of the channels of monetary circulation with banknotes and the simultaneous curtailment in the volume of production and trade led the country's economy to complete ruin.

Under conditions of the steady rise in prices the working population in urban areas received wages in devalued money and was unable to purchase even necessities with them. But the working peasantry not being able to acquire greatly overpriced industrial goods did not have any interest in selling produce to the urban population in exchange for the constantly devalued paper money. The industrial and trade bourgeoisie by developing speculation robbed the workers of urban and rural areas amassing colossal profits from the hunger of the people. The entire brunt of the boss methods of the fascist occupying forces and the national bourgeoisie and the policy of inflation that they carried out jointly lay like a heavy burden on the working masses and primarily upon the working class.

The position of the working peasantry also became extremely bad. The occupying forces mercilessly exploited them. They transferred the land of many peasants to German colonists and to the military high command.

The period of fascist domination was a school of tremendous political experience for the working class and all the workers of

Czechoslovakia. The people saw the true essence not only of the occupying forces but also of the national great bourgeoisie and landlords who had betrayed the interests of their country. Neither fascist torture chambers nor the bestial punishments of the Hitlerites could break the revolutionary spirit of the Czechoslovak people which precisely at that period in the person of one of its best sons -- Julius Fucika -- showed the world a brilliant example of fearlessness, bravery, and patriotism.

The occupation period like the period of existence of the pre-Munich bourgeois republic critically posed before the working masses of Czechoslovakia the question of the further fate of the country and the methods of liberating it. Led by the Communist Party the working class was the organizer of a broad popular movement against the usurpers great bourgeoisie, and landlords.

Inspired by the heroic victories of the Soviet Army, Czechoslovak patriots on 4 April 1945 formed on the liberated territory of Eastern Slovakia in the city of Kosice, the first government of the National Front of Czechs and Slovaks which adopted the program worked out by the Communist Party of Czechoslovakia.

On 5 May 1945 the workers of Prague launched an uprising against the occupying forces. Soviet troops moved to assist them and crushed the grouping of the Hitlerites and on 9 May 1945 liberated Prague.

The Czechoslovak people began to organize a new life and to consolidate the people's democratic order using for this purpose money as one of the economic levers.

2. The Role of the Koruna in Constructing the Socialist Economy of of the Country

Under conditions of bourgeois Czechoslovakia money and the monetary system were subordinate to the demands of the economic laws of capitalism and were used to exploit and enslave the workers and to obtain the highest profits for monopoly capital. The power that money had over the workers was founded on the private ownership of the tools and means of productions.

With the establishment of the dictatorship of the proletariat in the form of the regime of the people's democracy and with the socialization of the fixed assets of production the power of money began to be more and more limited. Money was converted from a means of exploitation to a mighty lever for constructing a socialist society.

The capitalist forms of management like the laws determining their development have lost their dominance in the national economy of Czechoslovakia. The main importance has been taken over by the economic laws of socialism whose sphere of activity together with a growth of the socialist way of life has been steadily expanding. The capitalist law of competition and the anarchy of production has been replaced by the law of the planned, proportional development of the national economy; the new, socialist principle of distribution according to labor has received development. There has also been a change in the principal goal of production which in people's democratic Czechoslovakia is carried out not for the sake of extracting profits but in the interests of satisfying the material and cultural needs of society as a whole. Money and the monetary system are subordinate to the demands of the economic

laws of socialism and are used by the state for the development of the economy and for the daily raising of the workers' standard of living.

To a limited degree the sphere of action of the law of surplus value extends only to the preserved capitalist forms of the economy whose proportion decreases rapidly in the people's democratic state. But as long as capitalist elements remain in the country the money in their hands is used for speculation, profit, and exploitation, that is, it serves the interests of capitalism and harms socialism. The people's democratic state through taxes, credit, price policy, and other economic measures greatly limits the activity of capitalist elements.

Thus at the present time one still observes in Czechoslovakia although to a very small extent the 2-fold nature of the use of money reflecting the principal contradiction of the transitional period -- the contradiction between ever-strengthening socialism and the still undestroyed capitalism. However as socialist production increases the sphere of action of the capitalist way of life becomes more and more curtailed, and together with it there is a still greater limitation in the role money plays as the means of capitalist exploitation and accumulation.

The bulk of the money in Czechoslovakia as in other countries of the people's democracy is directed by the state toward constructing the foundation of socialist economy. Here money expresses new socialist production relations and operates not in an unplanned way, but as the instrument of the planned economy. They actively help the people's democratic state to liquidate the old, capitalist order and the old dominating classes and to build socialism successfully.

As distinct from the capitalist economy whose money reflects its unplanned, uncontrollable nature the planned socialist economy of Czechoslovakia which is free of economic crises guarantees the stability and strength of the money of the new social order.

In capitalist countries during the period of the overall capitalist crisis the putting of money into circulation is caused not so much by the needs of the national economy as by the necessity of meeting the tremendous deficits of the state budget whose expenses guarantee maximum profits for monopolies.

In the people's democratic state the putting of money into circulation is determined by the planned development of the economy. It is not linked with the meeting of expenses since the state budget is run without deficits. In people's democratic Czechoslovakia money is completely subordinate to the action of the economic laws of socialism, and acts as a tool they emerge in all their functions.

The fact that there are many ways of life in the economy the necessity of developing normal links between city and country, industry and agriculture explain the retention in Czechoslovakia of commodity production (which has a number of qualitatively new features), exchange, and market relations.

Money has historically been inherited and is used by the people's democratic state as a necessary value form of social labor expended to produce commodities. In money the value form of expressing economic relations is crystallized.

Under conditions of commodity production the products which are the result of the labor of the individual producers and which are intended for consumption by other producers necessarily

take on the commodity form and are exchanged by means of money. As long as different forms of property and different economic ways of life exist the producers of commodities need commodity monetary exchange by means of purchases and sales in exchange for money. Consequently in people's democratic Czechoslovakia where there are different ways of life, and commodity production and commodity circulation exist, money is also necessary.

Under the conditions of the regime of the people's democracy commodity production and money successfully serve the development and strengthening of the socialist economy. In view of the socialization of the fixed assets of production, the sphere of commodity production and circulation, and thus the sphere of action of the law of value, in the people's democratic state are limited at the very beginning of the transition period from capitalism to socialism.

In contrast to bourgeois Czechoslovakia where money in converting into capital served as a means of appropriating other people's unpaid labor and a means of exploitation in the people's democratic Czechoslovakia Republic money is used for economic construction in the interest of the masses of the people and is an economic instrument for the planning of the national economy, accounting and control of production, and commodity circulation.

The payment of labor is effected in Czechoslovakia in conformity with its quantity and quality. The workers use money to satisfy their own personal needs. This serves as a source of giving the workers and employees a material interest in the quantitative and qualitative results of their labor and the quantitative and qualitative indexes of fulfilling plans for production and the

scale of output. That is why differences are retained when paying for the labor of different degrees of skill.

The fact that the workers and employees have a material interest is in Czechoslovakia not only a necessary condition of the successful work of each individual member of society, but also of each socialist enterprise whose control is carried out on the basis of business accountability and control of the koruna. In the socialist economy all expenditures of enterprises operating on the basis of business accountability and the results of their work are reduced to a common denominator. Only value and price as its monetary expression can be this denominator.

The consistent carrying out of business accountability and control of the koruna helps to reveal and eradicate all kinds of violations, non-productive expenditures and losses, and manifestations of negligence and poor business management in the use of funds. Much attention is paid in Czechoslovakia to the introduction of business accountability, the ability to calculate expenditures and the results of production accurately, and the use of the law of value.

Money is of tremendous importance in developing the Czechoslovak socialist trade and in increasing the volume and improving the quality of work in the trade system. When spending their monetary income the workers control with the koruna the quantity and quality of work of the trade system. By demanding commodities of high quality and great variety the consumer forces the trade organizations to fight to improve the quality of production produced by industrial enterprises.

The monetary form is used to calculate and distribute the national income of the Czechoslovak Republic and to reflect its state budget and the activity of the credit system and all the branches of the economy.

Money is used as a means of uniform expression of the expenditures of social labor in the entire national economy as an important means of accounting and control over the course of fulfillment of the national economic plans for production and the distribution of products and over domestic and foreign settlements.

Under the regime of the people's democracy the functions of money also change fundamentally as compared with capitalism. Money fulfills primarily the function of measuring the value of commodities, that is, it serves as the measure of the social labor embodied in the commodities. It can fulfill the function of a measure of value because it is itself a commodity possessing a definite value. For example the Czechoslovak koruna has a fixed gold content of 0.123426 g of pure gold. Banknotes issued by the state bank and the treasury serve as representatives of gold. In the function of a measure of value money is used in the socialist sector of the national economy of Czechoslovakia to account for and keep control over the activity of socialist enterprises. Monetary accounting is a means of planned governmental direction and control over the course of production.

In the function of a measure of value the people's democratic state uses money when planning prices. At the basis of establishing prices lies the value of the social product. Proceeding from the social costs of production and in conformity with the demands of the economic laws of socialism, the state can set prices of individual commodities higher or lower than their value.

The planned maneuvering of prices helps to inculcate advanced equipment in the Czechoslovak industry and agriculture, to limit the use of raw material in short supply (particularly imported), to influence in the necessary way the development of the agriculture, the structure of the commodities consumed by the workers, etc.

Using money in the function of a measure of value, the state, helped by a price policy, renders the regulating influence upon the private market. Concentrating in her hands in ever greater amounts the masses of commodities put into commodity circulation at planned prices the people's democratic state has an influence upon the level of commodity prices developing on the unorganized market.

Commodities are bought and sold in monetary form. In this process money acts as a means of commodity circulation. In this function it is used by the state for the planned circulation of commodities at planned prices among socialist enterprises and for selling commodities to the population through the trade system. In this function money guarantees the continuity of the production process and actively influences the processes of production and circulation.

Under conditions of the many ways of life in the Czechoslovak economy the exchange of goods of personal consumption is made up of commodities produced by state and cooperative enterprises and commodities produced by private enterprises. The entire volume of the public monetary mass is not used by them to purchase goods in the state and cooperative system. A definite amount of money is expended to purchase goods at the market at the prices

which have developed there. Consequently some part of the social labor is appropriated by capitalist elements with the aid of the function of money as a means of circulation. A small part of the total monetary mass is used for conversion into capital. But the state renders a definite regulating influence upon the unplanned conversion of commodity into money or money into commodity by means of a price policy which greatly limits these opportunities for converting money into capital.

In addition to the functions of the measure of value and a means of circulation money also fulfills the function of a payment means in the people's democracy. Workers and employees receive wages in money in accordance with the quantity and quality of expended labor and money is used for credit and financial links and all kinds of payment relations in the national economy. When paying wages the state through the bank controls the work of socialist enterprises. The bank issues monetary funds to the enterprise to pay wages according to the rate to which it has fulfilled the production plan.

As a means of payment money serves the settlements between enterprises and organizations; for the most part these settlements are made in non-cash form. In the same function money is used by the state to mobilize the public funds through tax levees and the system of savings banks and state credit.

By means of the tax system the state exerts a definite influence upon the development of the socialist forms of the economy and combats capitalist elements. The country's tax legislature anticipates the use of progressive rates of taxation of large-scale income, capital, and property belonging to capitalists and merchants.

One of the important functions of money in a society building socialism is its function as a means of social accumulation and the workers' savings. State and cooperative organizations keep in banks the monetary funds formed by way of amortization deductions, profit accumulation, etc.

Monetary income and the temporarily free monetary funds of state enterprises and organizations are directed toward socialist construction and toward satisfying the material and cultural needs of the people. As a result of the rise in the workers' standard of living there is an increase in the monetary savings which they are keeping in savings banks and which is being used temporarily by the state.

In this function money also serves the capitalist elements for accumulation and savings.

The movement of money in the process of its fulfilling these functions forms the monetary circulation in Czechoslovakia.

The theory of the founders of Marxism-Leninism concerning money, together with many years of experience in the use of money in socialist construction in the Soviet Union shows that an economy founded upon socialist property cannot develop and move ahead without the daily increasing of the role of money and the strengthening of monetary circulation. Guided by this the Communist Party and the people's democratic government of Czechoslovakia have carried out a number of measures aimed at strengthening the country's monetary circulation.

3. The Monetary Reform of 1945. Measures to Strengthen Monetary
Circulation at the First Stage in the Development of People's
Democratic Czechoslovakia

The Koshitskiy [sic] government program published on 5 April 1945 reflected for the first time in his tory the most vital needs of the workers.

As one of the most important tasks this program set forth profound socioeconomic reforms: the agrarian reform, the confiscation of the property of enemies and traitors of the people, and the establishment of national control of this property; the state direction of key branches of the national economy; the strengthening of national committees as organs of the state authority of the people in the outlying districts; the guaranteeing of the workers' broad political freedom and independence; and the complete strengthening of friendship with the Soviet Union.

On the demand of the Communist Party the government of the National Front also began to systematize monetary circulation.

During the war and the period of fascist occupation the channels of monetary circulation in Czechoslovakia were filled to overflowing with a vast mass of surplus money. Inflation grew at rapid rates in the country. As a result of the bossing methods of the occupying forces the national economy was in a state of complete disorder. The volume of industrial and agricultural production was sharply curtailed and as a result of this there was also a reduction in the commodity circulation. This aggravated the inflation still more and led to the sharp devaluation of the koruna. At the same time monetary circulation was greatly littered with substitute banknotes: in addition to the so-called korunas of the Protectorate

and Slovak korunas the money in circulation included German marks, Hungarian pengos, Polish zlotys, etc.

The inflation doomed the Czechoslovak masses of the people to severe deprivations and starvation. The severe drop in the purchasing power of the koruna as a result of its devaluation caused a colossal growth in prices, primarily of mass consumer goods. This lowered the real wages of the workers and employees and the income of the working peasantry. Inflation disrupted commodity turnover between the urban and rural areas and created a break between the prices of industrial goods and farm produce (to the detriment of the working peasantry).

The exploiter classes received tremendous profits and speculation increased. The inflation disrupted the normal functioning of industrial enterprises and the calculation of prices and capital investments was made extremely difficult, trade dropped sharply, and the importance of the black market increased.

The devaluated banknotes continued more and more to lose their role as a measure of value and as a result goods turnover in kind became widely developed.

Under these conditions it was possible to restore the national economy which had been destroyed by the war and occupation and to ease the deprivations of the workers only by systematizing monetary circulation. On the other hand the successful restoration and development of the national economy and, thus of commodity turnover, served as an important factor for strengthening monetary circulation. Therefore the fundamental rejuvenation of monetary circulation, the creation of a stable currency, and the construction of a new credit and monetary system were the urgent task of the people's authority.

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It was an extremely complicated matter to carry out monetary reform in an environment of economic ruin, disorder of commodity turnover, budgetary deficits, and the active resistance and sabotage of the reactionary elements. But the working masses under the leadership of the Communist Party of Czechoslovakia, overcame these obstacles.

Monetary reform was carried out on the basis of fundamental revolutionary socioeconomic reforms and simultaneously with them.

The agrarian reform even at its very first stages greatly undermined the domination of the landlords and opened up the path for the broad development of agriculture and the steady growth of agricultural production.

The nationalization of large-scale industry, mines, transport, and means of communication in addition to liquidating the domination of the monopolies concentrated in the hands of the national authority the fixed assets of production and the vast bulk of industrial production directed into the sphere of circulation.

The nationalization of joint stock banks transferred to the state an apparatus for monetary circulation, settlements, and crediting. The nationalized banks with their monetary resources were placed at the service of the people.

The nationalization of large-scale commercial joint stock banks also had another great importance for monetary circulation and for stabilizing the koruna. These banks acted as owners of the bulk (60%) of own capital of the National Bank of Czechoslovakia. When they were nationalized the National Bank of Czechoslovakia transferred completely into the hands of the state. Thus the central

emission institute in the country was turned toward fulfilling tasks being solved by the people's democratic state in the field of monetary circulation.

Thus the possession of the economic command heights by the people's democratic Czechoslovakia served as the firm basis for the monetary reform. In the course of preparing and carrying out this reform the state carried out a number of important economic and finance measures. In order to provide the population with products of primary necessity and to regulate the demand for them the ration card system was retained but speculation, hoarding, and the accumulation of commodity reserves were firmly prosecuted. In order to reduce the budgetary deficits the economy of state funds was introduced and the increasing of budgetary income was assisted by raising the rates of taxation on the profits of capitalists, the introduction of a property tax and a tax on increase in proportion during the period of the war and the fascist occupation, etc.

By the decree of 18 October 1945 "The Restoration of the Czechoslovak Currency," it was announced that beginning on 1 November 1945 the principal payment means in the Czechoslovak Republic was to be the new Czechoslovak koruna the gold content of which was fixed at 0.0177734 g of pure gold. Every person had the right to exchange old money for the new in amounts up to 500 korunas at the rate of one to one. Sums greater than 500 korunas were accepted by credit institutions onto special accounts and were blocked for a definite length of time. Deposits made earlier in the old banknotes, securities, insurance policies, and foreign currency were also blocked on special accounts in credit institutions. The sum of isolated deposits at the end of 1945 was about 254 billion korunas.

(J. Oliva, Financni soustava SSSR a lidove demokratickych republik se zvlastnim zretelem k peneznictvi, prvni cast, No 2, 1950, Prague, page 75).

The issuing of money from the blocked accounts was authorized in exceptional cases and within limited amounts only to persons who did not have other sources of existence. Industrial and trade enterprises, and state institutions received from the blocked accounts the necessary sums in new money in amounts which did not exceed the monthly wage fund for workers and employees. The working capital was granted to state industrial and trade enterprises by way of credit at a lowered rate of interest.

The implementation of the law issued 15 March 1946 concerning the tax on property and increase of property helped greatly to reduce the sum of the blocked deposits, since the payment of the tax was charged to them.

In July 1947 the Liquidation Currency Fund was created; credit institutions transferred to it all their obligations on blocked deposits (as of 31 August 1947). The fund became the sole institution in charge of all problems linked with the blocked deposits. The assets of the fund were made up of: sums accruing from the tax on property and increase of property and from the sale of confiscated property; the value of property of nationalized enterprises for which recompense had not been paid (for example, the property of fascists and enemies of the Czechoslovak people); and an annual subsidy stipulated by the budget.

The creation of the Liquidation of the Currency Fund was of great importance for the country's entire credit monetary system. First of all the unblocking of deposits did not increase emissions,

since it was done only at the expense of and within the limits of the real assets in the fund. Secondly after transferring to the fund the obligations on blocked deposits, the National Bank received the complete opportunity of engaging in its own direct operations.

In the course of the reform monetary circulation dropped from 120 billion korunas to 24.0 billion korunas (these sums also include funds on endorsement accounts in the National Bank which came to: 2.2 billion korunas in 1945, 10.1 billion korunas in 1946, and 7.3 billion korunas in 1947). But after the reform the putting of money into circulation soon began again to increase sharply. At the end of 1945, 30.4 billion korunas were circulating in the country. During 1946 the monetary circulation increased to 56.6 billion korunas and continued to grow, reaching 69.0 billion korunas by the end of 1947 (National Bank of Czechoslovakia, Bulletin 11, 1948, Prague, page 198).

How is this explained?

The 1945 monetary reform was an important measure to systematize monetary circulation and stabilize the koruna. It created a definite basis for the restoration and further development of the national economy, helped to adjust and increase commodity turnover between the urban and rural areas, and to strengthen the union between the working class and the working peasantry, and contributed to the use of money against capitalist elements with the aim of the socialist re-organization of the economy. The monetary reform rejuvenated the entire economic life of Czechoslovakia. It was carried out with a consideration of the interests of the broad masses of the workers, contributed to the growth of their real wages, and was directed against the exploiter classes.

However this reform was unable completely to guarantee the stability of the koruna since it was impossible to restore rapidly the national economy that had been destroyed by the fascist occupation and the socioeconomic reforms did not yet touch that part of the bourgeoisie which held in its hands enterprises with fewer than 500 workers, merchants in retail commodity turnover, or rich peasants in agriculture.

The wide-scale unblocking of deposits by way of governmental orders for state and social organizations and for the needs of individual citizens (in event of sickness, for instruction, etc) also had an influence upon monetary circulation especially since there were many abuses of these orders. In different combinations reactionary political parties attempted to unblock deposits in large sums for the use of the bourgeoisie. Reactionary officials of which there was no small number in credit institutions by using the official position also contributed to the illegal unblocking of accounts of capitalist elements in amounts of tens of billions of korunas.

The monetary reform was carried out at that time when the reactionary elements still had their representatives in government and were using all methods to undermine the measures of the people's authority. For example the 1945 monetary reform withdrew from circulation only part of the capital of the bourgeoisie; the latter kept large-scale material and monetary assets which were used for all kinds of speculative machinations.

Because of all these factors the reform did not create a solid basis for the stabilization of monetary circulation.

The situation was also complicated because of the fact that simultaneously with the process of removing old money from circulation and issuing new money the state established prices corresponding to the purchasing power of the koruna which had increased after the reform. This fact was used by manufacturers and merchants who had built up large stocks of goods at their warehouses and who refrained from selling them in exchange for pre-reform korunas.

By bribing reactionary officials the speculators frequently received goods at state prices and by selling them made tremendous profits thus undermining the work of the people's enterprises.

The prices of farm produce on the market rose especially rapidly. The growth of industry and the urban population kept increasing the demand for farm produce and raw material, but agriculture lagged behind the high rates of development of industry. Because of the poor work of procurement organizations, the state was unable to concentrate in its hands a sufficient quantity of farm produce to provide for the supply of rationed items to the urban population. The workers and employees were forced to spend a considerable part of their wages to purchase products from speculators. The rural capitalist elements that controlled a large quantity of farm produce deliberately refrained from selling them and inflated the prices. As a result a considerable amount of money collected in the hands of the rich peasants and speculators. Thus the capitalist elements in urban and rural areas weakened monetary circulation and undermined the purchasing power of the koruna.

Capitalists also received large profits from foreign trade which at that time was in private hands.

The deficit on the state budget also had a negative influence upon the growth of monetary emission. During the period from 1946 through 1948 the state income did not cover the expenses that had risen sharply as a result of the large-scale appropriations to restore the national economy that had been destroyed during the war and the period of fascist occupation.

DYNAMICS OF INCOME AND EXPENSES ON STATE BUDGET FOR 1946-1948⁽¹⁾

	1946	1947	1948
Income	37.8	48.4	56.9
Expenses	64.0	76.3	67.0
Deficit	-26.2	-27.9	-10.1

1 -- J. Dolansky, Vyklad k rozpoctu na rok 1947, c. 1, na rok 1949, No 6.

The necessary prerequisites and basis for the successful stabilization and strengthening of the koruna were created at the first stage in the development of people's democratic Czechoslovakia.

1. Monetary Circulation at the Second Stage in the Development of People's Democratic Czechoslovakia

The second stage of the people's democratic revolution in Czechoslovakia began after the reactionary elements which attempted in February 1948 to carry out a state coup were defeated. The state authority was transferred completely into the hands of the dictatorship of the working class in the form of the regime of the people's democracy. Under the leadership of the Communist Party and the renewed government of the National Front the country entered onto a broad path of socialist reforms.

The Ninth Congress of the Communist Party of Czechoslovakia which was held in May 1949 set down as the general party line the construction of socialism in the country. The congress presented

before the workers the task of carrying out by means of socialist industrialization the re-tooling of industry and primarily of creating a large-scale heavy industry. Tasks set down in agriculture included the socialist re-organization of the rural areas on the basis of the steady strengthening of the union between the working class and the working peasantry and the transition from unproductive, dispersed agricultural production to large-scale co-operative socialist production.

The path of development onto which Czechoslovakia entered when carrying out the decisions of the Ninth Party Congress was prepared by the entire preceding period. By the end of the Ninth Congress the country had already restored industry, transport, and means of communication. After the completion at the second stage of fundamental socioeconomic reforms the socialist way of life became the predominant one in all branches of the economy with the exception of agriculture.

Under conditions of the severe struggle against rich peasants the working peasantry supported by the working class gradually began to change over to the collective forms of agriculture to large-scale cooperative socialist production.

The growth of the socialist way of life which became the predominant one in the national economy created a solid basis for the planned running of the economy and for long range planning.

In October 1948 on the proposal of the Communist Party the National Assembly adopted the Law concerning the Five-Year Economic Plan for the Development of Czechoslovakia in 1949-1953.

The volume of capital investments according to the Five-Year Plan was set at 336.2 billion korunas, including 1,319 billion korunas in industry, 52.9 billion in transport, 26.8 in agriculture, 39.3 billion in housing construction, and 28.6 billion in social welfare, public health, and culture (Pervyy pyatiletniy plan razvitiya narodnogo khozyaystva Chekhoslovakii [First Five-Year Plan for the Development of the National Economy of Czechoslovakia], Publishing House of Foreign Literature, 1950, page 188).

After the Ninth Congress an unprecedented labor upsurge began throughout the country. The workers' socialist competition began to develop more and more widely. For example the number of competitors on the eve of the congress were 250,000 and after the congress 649,000. There also was an increase in the number of production innovators whose suggestions were put into use. As a result labor productivity increased.

The plan of the first year of the five-year plan was fulfilled by 102.8%. The results of fulfillment of the first year of the five-year plan showed that it was necessary to accelerate the re-organization of industry especially heavy machine building and those branches of production which did not depend upon the import of raw material from capitalist countries.

The February Plenum of the Central Committee of the Communist Party of Czechoslovakia in 1950 adopted a decision to accelerate the re-organization of industry which had been set down by the five-year plan and to increase the production assignments considerably. In connection with this the ratio of 66:50 which the five-year plan established between the production of producer goods and consumer goods was replaced by the ratio of 88:50.

In the field of agriculture there was a tremendous shift toward the formation of cooperatives. By 1950 uniform agricultural cooperatives of various types already existed in every other village in the republic. The socialist way of life in agriculture encompassed 22% of the total arable land. The production of agriculture increased by 14% in 1949 and 1950. For certain crops the increase in production was more rapid than had been foreseen by plan. For wheat, oats, and flax the level originally planned for 1953 was reached in the end of 1950.

There was a considerable rise in the public's standard of living. The wages of workers and employees in industry increased by 20% in 1950 and the income of peasants by 19%. There was also an increase in goods turnover. In 1950 there were 10-50% more food products sold than in 1948, 21% more textile goods, and 48% more ready-to-wear clothing.

In 1949 the income of the state budget of Czechoslovakia began to exceed the expenses and this attested to the strengthening of the country's financial might and contributed to stabilizing and strengthening of money and monetary circulation.

The issuing of banknotes after the 1945 reform as has already been stated increased rapidly. By the end of 1948 the amount of money in circulation was 73.0 billion korunas. Different factors influenced the growth of the monetary mass. First of all at the second stage large sums were needed to finance the nationalized industry, wholesale and retail trade, and this increased the expenses of the state budget. However state enterprises were unable immediately to become a large source of income for the state budget. The fact that tradesmen and the prosperous

peasantry curtailed their production also had an influence upon monetary circulation.

By the end of 1949 monetary circulation had decreased and amounted to 71.1 billion korunas. This showed the positive effect of the successful fulfillment of the first year of the five-year plan in the sphere of production and commodity turnover, the completion of nationalization, the growth of the socialist way of life in production, and the budget income from it, the liquidation of the budgetary deficit and the drawing off of excess cash into the cash offices of the National Bank.

By the end of 1950 the mass of money in circulation amounted to 77.8 billion korunas. The slight increase in its volume was caused by procurements of farm produce from the peasants with individual farms and by the increase in the wages of workers and employees.

Monetary circulation increased sharply in the first half of 1951, as a result of the large expenditures linked with the fulfillment of the assignments of the First Five-Year Plan. As Jaromir Dolansky pointed out in his speech at the Conference of the Communist Party of Czechoslovakia in June 1956 these assignments were "solved under conditions of the broad and rapid industrialization, the overcoming of considerable difficulties in agriculture, and the struggle against the imperialist embargo, when many efforts had to be directed toward overcoming the resistance of the remainder of the exploiter class, when the ration card system which had weakened the use of the main motivating forces of the socialist running of the economy was still in effect and when in addition an excess amount of banknotes were in circulation." The successful fulfillment of the plan for the third year of the five-year plan, the steady growth

of industrial production and mass consumer goods, the increasing of commodity turnover, and the establishment in July 1951 of commodity prices in accordance with the income of the population made it possible in a planned way to reduce the monetary mass in circulation and to achieve a state in which by the end of the year it was below the 1950 level.

The putting of money into circulation in 1952 with the great rise in industrial production and commercial output remained at approximately the 1951 level. All this attested to the stability of the koruna which was used to finance tremendous capital investments in the national economy according to the five-year plan and which acted as a means of controlling the measure of labor and measure of consumption, the means of socialist accumulation and business accountability.

During the course of the fulfillment of the five-year plan there was a steady development of the country's productive forces and a steady rise in the workers' standard of living. During 4 years of the five-year plan that is from 1949 through 1952 the gross production of industry as a whole increased by 82% more than doubling the 1937 level. The gross production of heavy industry increased by 108% during those years. The average yearly increase in industrial production was 16% (Za prochnyy mir, za narodnuyu demokratiyu! [For Lasting Peace, for the People's Democracy!], 3 July 1953).

Bourgeois Czechoslovakia which was shaken periodically by economic crises could not even dream about such a growth. During the 4 years of the five-year plan the production of black coal increased by an amount that under the rule of the capitalists had been achieved in 24 years (from 1913 through 1937). The production

of brown coal increased by 9 million t in 4 years whereas during the years 1913-1937 it dropped by approximately 5 million t. The production of electric power in 1952 surpassed the 1937 level by 2 3/4 times and steel by 61%.

By the end of 1952 half the villages in the republic had uniform agricultural cooperatives of higher types. The fields were cultivated by 25,000 tractors and 700 combines. The number of head of livestock surpassed the 1937-1938 level. The number of head of large horned cattle increased by 2% and hogs by 55%. The harvest yield of grain crops per ha surpassed the average harvest yield for 1934-1938.

Thanks to the successful development of the productive forces the country's national income in 1952 increased by 50% as compared with the prewar national income. Three-fourths of the national income in 1952 were directed toward satisfying the personal material and cultural needs of the workers (ibid, 5 June 1953).

The rapid development of the economy of people's democratic Czechoslovakia is assisted by the steadily developing economic collaboration with the states of the socialist camp the share of which in the Czechoslovak foreign trade since 1946 has increased from 20% to 70% (ibid, 3 July 1953).

Successes in the construction of socialism, particularly the successful fulfillment of the assignments of the first 4 years of the five-year plan and the tasks of the further growth of the national economy and the steady rise in the people's standard of living required a still greater strengthening of the koruna and an increase in its purchasing power with the simultaneous abolition of the

ration card system of supply and the transition to developed trade according to uniform retail prices.

The necessity of the new monetary reform was caused by the fact that the 1945 reform did not eliminate all the consequences of the fascist occupation and World War II in the field of monetary circulation. In 1948 the capitalist elements in urban and rural areas continued to accumulate tremendous profits.

The great amount of money in circulation after February 1948 hindered the government's measures in supplying the population, in strengthening labor discipline, in carrying out a system of economy, etc and lowered the purchasing power of the koruna. The 1953 monetary reform put an end to this.

The decree of the government and the Central Committee of the Communist Party of Czechoslovakia dated 30 May 1953 and titled "Carrying out of Monetary Reform and the Abolition of the Ration Card System in Czechoslovakia," states: "... the monetary reform will increase the purchasing power and strengthen the rate of exchange of the Czechoslovak koruna. The new koruna will be converted to a gold basis. It no longer will depend upon the American dollar which is a currency that has been subjected to the influence of depressions and whose purchasing power is steadily falling. From now on the rate of exchange of the koruna will be linked with the most stable currency in the world -- the Soviet ruble" (Rude pravo, 31 May 1953).

The law of the monetary reform established the gold content of the Czechoslovak koruna at 0.123426 g of pure gold.

The purchase price of gold at the State Bank of Czechoslovakia

was established in the amount of 8 korunas per g of pure gold. The ratio of the koruna to the ruble was 1.8:1, that is, one koruna 80 hellers was equal (according to parity) to one ruble. With respect to other foreign currencies the State Bank of Czechoslovakia established a rate of exchange for the koruna on the basis of their gold content or their rate of exchange. In accordance with the law concerning the reform after 1 June 1953 new banknotes were put into circulation: those issued by the State Bank in denominations of 100, 50, 25, and 10 korunas; and treasury banknotes with nominal value of 5, 3, and one koruna and metal coins valued at 25, 10, 5, 3, and one heller.

The old banknotes in circulation were compulsorily exchanged for new ones. The exchange of cash was done by institutions of the State Bank in the following proportion: for citizens who did not make use of hired labor up to 300 korunas per person at the rate of 5 old korunas for each new one, that is, taking into consideration the change in the scale of prices without any rebate and more than 300 korunas at the rate of 50 old korunas for each new one, that is, with a 10-fold rebate; for other citizens at the rate of 50 old korunas for each new one.

The decree concerning the monetary reform also envisaged the revaluation of all deposits of the population in the country's credit associations.

RATE OF REVALUATION OF THE POPULATION'S DEPOSITS⁽¹⁾

Amt of deposit (No of korunas)	Rate of exchange (no of old korunas for each new one)
Up to 5,000	5
5,000-10,000	6.25
10,000-20,000	10
20,000-50,000	25
more than 50,000	30

1 -- Bude pravo, 31 May 1953

Operating and settlement accounts of state organizations and uniform agricultural cooperatives of higher type were revaluated at the rate of 5 old korunas for each new one.

The revaluation of accounts in other organizations was done according to the following principle: for sums guaranteeing the normal activity of the organization (but not more than the wage fund for the preceding month), a rate of 5 old korunas for each new one was established; for the remaining sum 50 old korunas for each new one. The accounts of foreign representations in the State Bank of Czechoslovakia were revaluated at the rate of 5 old korunas for each new one.

The wages of workers and employees, pensions, grants, and income of peasants from selling farm produce to the state were paid in new banknotes without rebate at the rate of 5 old korunas for each new one.

The monetary reform and the abolition of the ration card system which had existed in the country for 14 years were met with great satisfaction by the workers.

The monetary reform played a tremendous role. It gave the national economy of Czechoslovakia a stable and strong koruna, increased its purchasing power, made it possible to abolish the ration card system and to guarantee that the workers would be supplied according to the principle "to each according to the labor expended."

The ration card system did not stimulate the growth of labor productivity. This took place because it lowered the importance of the monetary form of wages and as a result of the high prices on the

commercial market did not make it possible for the worker to sense a higher wage to the sufficient extent. On the other hand the ration card system guaranteed a comparatively high standard of living for negligent workers.

The monetary reform made it possible on the basis of a stable koruna to develop widely socialist trade and commodity turnover between the urban and rural areas. The fixed uniform retail prices helped the further rise in the purchasing power of money. This was especially important for the uniform agricultural cooperatives, small-scale and middle peasants who in exchange for compulsory deliveries of farm produce to the state and for farm produce delivered in excess of the assignment, received a stable full value koruna.

The monetary reform created the prerequisites for the correct payment of labor according to its quantity and quality, and for the consistent introduction of business accountability, economy measures and other measures of the people's democratic state. Thus it contributed to strengthening the national economy.

The reform corresponded to the vital interests of the working nation. It was the stimulating factor in its creative labor and assisted in the further rise in its standard of living.

The monetary reform considerably increased the role of money in Czechoslovakia's national economy in all its inherent functions, increased the koruna's control over production and the sale of output, and helped the further strengthening of business accountability and system of economy.

There was an increase in the importance of money as a means

of control over social production and the distribution of products and an increase in all monetary functions.

The strengthening of the functions of money as a measure of value manifested itself in the elimination of the multiplicity of prices and in the establishment of uniform wholesale and retail prices.

The transition to developed trade at uniform prices without ration cards increased the role of money as a means of circulation. Thanks to the increase in commodity turnover there was a great increase in the commodity security of the koruna. There was also an increase in its importance in the hands of the consumer as a means of controlling the work of trade organizations and in the hands of the trade organizations as a means of controlling the quality and variety of industrial output.

The role of money increased in developing socialist trade, in the more rapid bringing of goods to the consumer, and in the effect that the state had upon the unorganized market. There was an increase in the importance of the function of money as a means of payments used by the finance credit system to intensify the control of the koruna in the national economy.

After the monetary reform there was an increase in the degree to which the workers had a material interest in the growth of labor productivity and in better and more correct organization of labor at the enterprises. The abolition of the ration card system of supply increased the importance of money as a very important means of distribution according to labor.

The monetary reform, the abolition of the ration card system of supply, and the transition to extensive trade are brilliant

testimony to the concern shown by the Communist Party and the government of Czechoslovakia toward the maximum satisfaction of the constantly growing needs of the workers. Simultaneously the reform struck a blow at the capitalist and speculator elements in the urban and rural areas.

With the abolition of the ration card system for food and industrial goods the country took the path of extensive trade at uniform state retail prices instead of the previously existing standardized, commercial, and the so-called old uniform prices. The commercial prices of foodstuffs were lowered an average of 31% and industrial goods, 37%; uniform prices of goods which had been sold without ration cards were lowered an average of 7% (Za prochnyy mir, za nasodnuyu demokratiyu!, 3 July 1953).

Because of the increase of prices of certain standardized goods, there were increases in the wages of the bulk of the workers and employees, pensions, grants to families with many children, etc. The procurement prices of certain farm products went up by 24-46%.

The lowering of the commercial prices of food and industrial goods, the increase in the wages of workers and employees and of procurement prices for certain farm products considerably increased the real wages of the workers and employees and the income of the peasants.

The average wages per worker as compared with the prewar level increased by more than 50%, but the prices of mass consumer goods increased by just one-third. The payment for municipal and everyday services fell to 50% less than the prewar payment. As a result the real wages surpassed the prewar level by more than one-fourth.

The purchasing power of the koruna after the monetary reform and the abolition of the ration card system increased considerably as attested to by the following data:

	Amount that could be purchased on the unstandardized mar- ket for 1,000 korunas before the reform	Amount that could be purchased at uniform retail prices for 200 korunas after the reform
	(all in kg except eggs)	
Rice	3.30	7.10
Granulated sugar	7.10	15.40
Butter	2.20	4.50
Canned meat	3.80	8.50
Jerked smoked sausage	1.50	4.00
Frankfurters	3.30	6.20
Eggs	95	167

The successful fulfillment of the First Five-Year Plan for the development of the national economy had a favorable influence upon the further expansion of commodity turnover, the strengthening of the koruna, and the increase in its purchasing power.

During the years of the First Five-Year Plan the output of industrial production more than doubled. The production of producer goods increased 2.5 times, and its proportion in industrial production increased from 56% in 1948 to 62% in 1953 (Pravda, 24 January 1954).

During the years of the five-year plan there was also an increase in the production of consumer goods. Nineteen percent more cotton and woolen fabrics were produced in 1953 than in 1948, 49% more linen and semi-linen fabrics and 28% more sugar.

Labor productivity in industry increased by 64% during the years of the five-year plan (A. Khachaturov, op. cit., page 71).

On the basis of the increase in the production of producer goods and consumer goods, the increase in labor productivity and the reduction of the net cost of production, the Communist Party and the people's democratic government lower prices, expand commodity turnover, and daily strengthen the monetary circulation. The workers of Czechoslovakia received a great saving from the reduction of prices. For example as a result of the frequent lowering of uniform state retail prices from June 1953 through April 1954 the population of Czechoslovakia saved 10.3 billion korunas a year. In addition there were reductions in the prices of repairing household appliances and of other services and this gave the population an additional saving in the amount of 280 million korunas.

On 1 April 1955 the fourth reduction in retail prices was carried out for more than 16,000 types of food and industrial goods thanks to which the population saved 1.3 billion korunas a year (Za rochnyy mir, za narodnuyu demokratiyu!, 1 April 1955). On 1 April 1956 retail prices of mass consumer goods were lowered for the fifth time. As a result of this reduction the saving gained by the population will be 2.1 billion korunas a year. The lowering of retail prices affects more than 22,000 food and industrial commodities (Rude pravo, 31 March 1956).

The lowering of prices considerably increases real wages and thus contributes to the further rise in the workers' standard of living. In Czechoslovakia the national consumption of food and industrial goods has increased. In 1954 the average meat consumption per capita was 37% more than in 1936, sugar 17%, eggs 23%, wheat flour

67%, and cheese 79%. During the years of the First Five-Year Plan the population bought 946,000 radio receivers, 748,000 bicycles, 138,000 motorcycles, and 144,000 sewing machines.

The Czechoslovak people will achieve a still higher standard of living by implementing the majestic program of the Second Five-Year Plan (1956-1960).

During the Second Five-Year Plan the overall volume of industrial production will increase by 50%, including the production of producer goods, 57%; and the production of consumer goods, 40%. Black coal production will be increased by 26% and by 1960 will reach 29.3 million t a year. The production of brown coal will be increased by 49%, and coke by 23%. The production of electrical power will increase by 68% and reach 25.34 billion kw. Production of iron ore will increase by 46%, cast iron by 60%, and steel by 46%.

The principal growth of production goods will as formerly be the basis for the expanded reproduction and will contribute to the development of the national economy on a firm and healthy basis which will make it possible as Comrade V. Siroky pointed out in his report to reduce to the minimum the disproportion which still exists in the development of individual branches of the Czechoslovak economy. The leading role in the Second Five-Year Plan will continue to belong to machine building whose volume of production will increase by approximately 83%.

The overall volume of agricultural production will increase by 30%. This will be achieved primarily by increasing the intensity and productivity of agriculture and animal husbandry, with the simultaneous rapid growth of the socialist way of life in agriculture.

By the end of the five-year plan meat production will be increased by 33%, milk by 19%, butter by 61%, cotton fabric 29%, woolen fabric 20%, footwear 21%, etc.

The national income will be 48% more than during the First Five-Year Plan and the real wages 30% more. There will be increased expenditures for public health, schooling, and social and pension security. Special attention is being devoted to housing construction.

It is also anticipated that during the Second Five-Year Plan there will be expanded scientific research work, including work in the field of nuclear energy for peaceful purposes (Smernice Ustredniho vyboru KSC pro sestaveni druheho petiletého planu rozvoje narodního hospodárství CSSR na léta 1956-1960).

The directives of the Central Committee of the Communist Party of Czechoslovakia on the Second Five-Year Plan require the mobilization of intraeconomic resources, the increasing of labor productivity in all branches of the economy, the lowering of production costs and increase in profitability, the introduction of economy measures, and the strengthening of business accountability.

In carrying out these very important assignments of the Second Five-Year Plan an important role will be played by the Czechoslovak koruna, which has not undergone any fluctuations since the monetary reform of 1953. The intensification of control by means of the koruna must contribute to a situation in which the business directors manifest the necessary concern for the intelligent and economic expenditure of the people's funds and the

improvement of the business and finance activity of enterprises and organizations.

In the field of international settlements the importance of the 1953 monetary reform lies in the fact that the rate of exchange of the Czechoslovak koruna is now firmly linked with the Soviet ruble, the most stable currency in the world.

Thus people's democratic Czechoslovakia in a comparatively short period of time has achieved a fundamental rejuvenation of its monetary circulation and created a stable currency which has a definite gold content that is not dependent upon the capitalist currency market and which rests upon the steady great increase in industrial and agricultural production.

CHAPTER II. CONSTRUCTION OF THE NEW CREDIT SYSTEM FOR CZECHOSLOVAKIA

1. Nationalization of the Banks -- the Basis of Creating a Socialist Credit System

The nationalization of banks in the people's democratic Czechoslovak Republic lay the foundation for the creation of a new socialist credit system on the basis of the socialist reorganization of the entire national economy.

Marx and Engels viewed the nationalization of the banks as one of the most important elements in the overall system of measures carried out by the dictatorship of the proletariat and directed at destroying the exploiter classes and organizing the socialist means of production. Among the principal changes that the proletariat would have to make after coming into power, the Manifesto of the Communist Party lists the centralization of credit

"in the hands of the state by means of a national bank with state capital and an exclusive monopoly" (K. Marx and F. Engels, Soch. [Works], Vol V, page 502).

Marx and Engels did not consider the nationalization of the banks an isolated, self-sufficing measure. They place it in direct connection with and alongside of the socialization of the means of production and the organization of a planned socialist economy.

The ideas of Marx and Engels concerning the necessity of nationalizing the banks after the victory of the socialist revolution and of using them for the transition from capitalism to socialism were theoretically developed by V. I. Lenin and put into practice in the USSR.

In the theory of imperialism Lenin pointed out how a growing concentration of monetary capital in large-scale banks leads to a situation in which they change from simple middlemen into all-powerful monopolists having at their disposal not only the bulk of monetary capital but also a considerable part of production and sources of raw material.

Taking into consideration the tremendous importance of banks upon the national economy Lenin emphasized: "... only if the banks are nationalized will it be possible to achieve a situation in which the state knows where and how, from where and at what time millions and billions are moving. And only control of the banks, the center, the main pivot and principal mechanism of the capitalist circulation would make it possible to coordinate in deed and not in words control of the entire economic life, the

production and distribution of very important products, to coordinate the 'regulation of economic life' which otherwise is condemned inevitably to remain a ministerial phrase to inflate the simple folk" (V. I. Lenin, Soch., Vol 25, page 306).

V. I. Lenin especially emphasized that this control and regulation must be directed against the bourgeoisie and toward the protection of the workers' interests. He also linked the nationalization of the credit system with other economic changes: with the nationalization of industry, transport, means of communication, syndicates, etc.

In the banks Lenin saw an apparatus that the dictatorship of the proletariat could use and had to use in order to account for and keep control over the production and distribution of the social product and in order to organize the socialist economy. The nationalization of the banks was viewed by him as the initial point in the fundamental re-organization of the entire credit system and its conversion from a tool in the dominance of the monopoly capital into a tool in the struggle against capitalism, a tool for building the socialist system of economy.

The transfer of banks along with other command heights to the people's democratic state creates the conditions for the most complete utilization of the tremendous bank funds for the directing of them toward the development of the productive forces in all branches of the national economy.

The nationalization of the banks lays the beginning to the construction of a credit system of the socialist type. The people's democratic state makes wide use of credit and banks in controlling the country's economy and in the victorious construction of socialist

society. All these factors have a direct relationship to Czechoslovakia.

Before the establishment of the regime of the people's democracy the Czechoslovak credit system was marked by a high concentration of capital. In 1937 it consisted of 32 large banks. The principal role on the monetary market was played by joint stock commercial banks of which there were 23. Eight of them (the joint stock capital of each came to more than 50 million korunas) accounted for 77.7% of the joint stock capital, 87.4% of the reserves, and 84.2% of deposits in all banks (Zpravy Statniho uradu statickeho Republiky ceskoslovenske, 1938, Nos 43-44). The process of concentration led to the arising of 2 groups of very large banks: the group of the Zhivnostenskiy Bank and the group of the Anglo-Czechoslovak and Prague Credit Bank and the Agrarian Bank, which subordinated to themselves a number of other commercial banks and a broadly developed "popular" credit system (loan and savings-and-loan offices, credit associations).

Joint stock commercial banks had a close connection with industrial joint stock associations. On the eve of World War II, 1,330 joint stock associations existed in Czechoslovakia, with capital of 9 billion korunas: 80% of the capital of all these associations was controlled by 9 very large banks (Fr. Kolar, Zestateni prumyslu a peneznictvi, 1949, Prague). Capital was most centralized in the metallurgical industry and in machine building. Of 3,722,000 korunas in the fixed capital of all enterprises in all branches, the monopolies owned 3,392,000 korunas, or 91%.

A few very large banks actually controlled the country's entire economic and political life. For example, the Zhivnostenskiy Bank -- the "backbone" of the Czech financial oligarchy -- controlled capital in the amount of 10 billion korunas. This bank owned 39% of the joint stock capital of the sugar industry, 35% of the chemical industry, 35% of the building materials industry, 13% of the machine building industry, and 11% of the textile industry (K. Malecek, op. cit., page 83). The Zhivnostenskiy Bank was the principal holder of shares of certain Skoda plants. Through numerous international concerns the bank was closely linked with British, German, Belgian, and American capital.

The Anglo Czechoslovak and Prague Credit Bank controlled about 20 very large enterprises in the metallurgical, electrical-engineering, textile, and food industries. The Czech Union Bank with joint stock capital of 150 million korunas controlled about 30 industrial associations and companies.

The bosses of the large banks had a tremendous influence upon the political life of Czechoslovakia forcing the government to act in the interests of a handful of finance magnates such as Veyman, Preyz, Beran, Pecek, Stoupal, Batya, Lovenshteyn, etc. The credit system completely and entirely served the bourgeoisie and landlords and contributed to the exploitation of the Czechoslovak workers and peasants.

The political parties of finance capital -- the National Democratic and Agrarian parties -- were the leading governmental parties throughout the life of bourgeois Czechoslovakia. The National Democratic Party represented the interests of the financial

circles that were closely linked with the Zhivnostenskiy Bank and the Agrarian Party represented the interests of financial groups supported by the Agrarian and Anglo Czechoslovak and Prague Credit Banks.

The democratic mask on the facade of the Czechoslovak state only covered the crude and cynical domination exercised over all society by a handful of billionaires.

The workers in the country were exploited not only by the national bourgeoisie but also by foreign bourgeoisie which owned one-fourth of all Czechoslovak industry. Great economic influence was exerted by Britain whose capital investments came to 600 million korunas. Britain was especially closely linked with the Zhivnostenskiy Bank. The next country with respect to volume of capital investments was the United States, with 130 million korunas and then Switzerland, with 120 million. The capital investments of all other states were fixed at a total amount of about 200 million korunas. In 1941 the first place with respect to capital investments in Czechoslovak industry was occupied by Germany (1.1 billion korunas) (K. Malecek, op. cit., pages 114-115). She owned the very important chemical enterprises and a number of machine building, textile, and glass plants.

The Agrarian Bank acted as one of the champions of the influence of German capital upon the Czechoslovak economy. It was the center from which the Munich conspiracy against Czechoslovakia was financed. A certain number of banks which concentrated tremendous capital in their hands actually controlled the country's national economy.

Having before it the brilliant example of the Soviet Union the people's democratic Czechoslovak state at the very first stage of its development in addition to other socioeconomic reforms nationalized the banks.

The process of possessing the bank and credit system began immediately after the German fascist usurpers were routed.

In the course of carrying out the Koshitskiy governmental program and the further development of the people's democratic revolution, the working class, headed by the Communist Party, broke the resistance of the bourgeoisie and achieved the publication on 24 October 1945 of the decree concerning the nationalization of joint stock banks, large scale industry and insurance associations. The decree on the nationalization of joint stock banks stated that effective the date of its publication all joint stock banks became the property of the state and were converted in national banks.

All banks which became the property of the state were listed on the trade register as independent juridical persons. In order to coordinate their common affairs on 1 July 1946 the Administration of Banks was founded in Prague with a regional Administration of Banks in Bratislava (subordinate to the Ministry of Finance). Each bank was directed by a board of directors consisting of a chairman, his deputy, and 5 members.

The current operations were controlled by the bank director and his deputy who in Czechia were appointed and discharged only by the minister of finance and in Slovakia in accordance with coordination with the commissioner of finance at the proposal of the central administration of banks and in accordance with the report of the board of directors of the bank. Supervision of the work of the bank

was carried out by the Inspection Council which consisted of a chairman, deputy chairman, and 6 members.

The opening of new banks and the unification or closing of them were authorized only with the consent of the government.

The decree of 24 October 1945 did not extend to the National Bank of Czechoslovakia which remained a joint stock bank. But the administration of that bank was very strongly influenced by the state, since the state owned one-third of all the shares. In addition the shares of the National Bank which were at the disposal of the nationalized joint stock banks also were transferred to the state. Thus the state held an absolute majority of the shares in its hands.

The nationalization of the banks which was carried out in 1945 completely eliminated the former might of finance capital in the country. It was a very important measure in the re-organization of the finance and credit system, the carrying out of the monetary reform, and the strengthening of monetary circulation and finance during the restoration period. The prerequisites were created for the organization of a socialist credit system and for using it in the struggle against capitalism. The nationalization of the banks made it possible for the state "first to review all the principal monetary operations without concealing them, and then to control them, and finally to regulate economic life" (V. I. Lenin, Soch., Vol 25, page 308).

The state became able to check and regulate the volume and trend of credit in the interests of constructing a socialist economy.

During the period when people's democratic Czechoslovakia is

making the transition from capitalism to socialism, credit and banks express not only socialist production relations but also in part the relations between the capitalist elements which in certain although restricted limits can use credit for their own purposes. But the principal function of credit and banks under the conditions of the Czechoslovak economy with its many ways of life is to serve as a tool for building socialism. Credit and banks help the state to close all the channels along which part of the surplus accumulation in the country is drawn into the pockets of private capital to the detriment of socialist accumulation.

Banks and credit are used in Czechoslovakia: first, in order to restrict and crowd out capitalist elements by means of the appropriate regulation of the conditions and possibility of obtaining loans from the nationalized banks and the nationalized trade and industrial enterprises; second in order to mobilize monetary accumulations and direct them toward the restoration and development of the national economy; and third for the planned regulation and socialist re-organization of small-scale goods management and for the formation of peasant cooperatives.

Through the nationalized banks by means of granting preferential credits, the people's democratic state has actively helped and continues to help the development of national enterprises and their further growth. As regards capitalist elements the government immediately limited the granting of credit to them and for the use of loans charged them an increased rate of interest. But as the socialist sector grew and developed the granting of credit to capitalist elements was curtailed more and more; in the end of 1948 the issuing of bank loans to large-scale capitalists was completely stopped.

The capitalist elements violently resisted the nationalization of the banks understanding excellently that by keeping them in their hands they would be able to exert pressure on the country's national economy, to retard its development, and thus to prepare the ground for overthrowing the regime of the people's democracy.

Relying upon the forces of international reactions headed by the Anglo American ruling circles the Czechoslovak bourgeoisie attempted to disrupt the nationalization and prepared the sabotage of bank officials, etc. The banks offered all kind of assistance to the bourgeoisie. They refused to grant credit for operations to purchase articles of prime necessity for the population, concealed commodities, and disrupted the normal operation of production by delaying money issued to industrial enterprises for the paying of wages. The bosses of the Czechoslovak banks made contracts with the foreign financial oligarchy concerning the financing of counter-revolutionary acts of the bourgeoisie which was attempting to establish the unlimited authority of the capitalists and landlords. But no matter how the bourgeoisie resisted, the nationalization of the banks was still crowned with success.

The workers of Czechoslovakia completely supported the measures to nationalize the banks and subsequently re-organize them, which were set down in the Koshitskiy program, and after the victory of the Communist Party in the May 1946 elections in the program of the government headed by K. Gottwald. In the latter program it was proposed to centralize and specialize the nationalized banks in conformity with the demands of the socialist transformation of the country's economy, to subordinate the bank activity to the planned conduct of the national economy, and to introduce non-cash settlements in all branches of the economy.

Three stages can be distinguished in the re-organization of the credit system of people's democratic Czechoslovakia. At the first stage that is from the first days of the victory of the regime of the national democracy, governmental control was established over the banks and was carried out until October 1945 and the nationalization of the joint-stock banks. The second stage is characterized by the nationalization of the banks and the fusion of bank establishments which continued until the end of the restoration period. At the third stage which began at the end of the restoration period, the granting of commercial credit was abolished. The granting of short term credit was separated from the financing of capital investments and the bank system was used for financial planning and financial control over production and commodity turnover.

Before the nationalization there were many different types of credit institutions in Czechoslovakia. The credit system included: the National Bank of Czechoslovakia, the country's central emission institute; joint-stock commercial banks (deposit and investment), which engaged in operations for granting of short term credit and capital investment; mortgage and land credit banks; postal savings banks which in addition to savings operations made settlements; and the widely ramified network, characteristic of Czechoslovakia made up of cooperative small scale credit establishments (urban savings-and-loan office, savings-and-loan associations, Kampelik farm-loan offices) (savings offices in rural areas named after their founder, Doctor Jan Kampelik -- end of the nineteenth century), production loan associations, etc which received deposits from the population and local enterprises and issued short term loans to them for production and commercial purposes and which also financed capital investments.

Simultaneously with the nationalization of the banks, they were also centralized. Instead of a thousand different credit institutions the new nationalized credit system created 15 large banks.

In Czechia and Moravia of all the nationalized banks there remained: (1) the Zhivnostenskiy Bank; (2) the Prague Credit Bank; (3) the Legio Bank; (4) the Farm Bank; (5) the Moravian Bank; (6) the Plzen Bank; (7) the Central Cooperative Bank; and (8) the Postal Savings Bank in Prague.

In Slovakia the new credit system included: (1) the Tatra Bank; (2) the Peasant Bank; (3) the National Bank; (4) the Myyavskiy Bank; (5) the Slovakian Bank; (6) the Central Slovakian Bank; and (7) the Postal Savings Bank in Bratislava.

Thus the entire banking system after the nationalization consisted of the following links: the National Bank which was divided by functions of banknote emission and the regulation of monetary circulation and credit; national credit corporations (commercial banks), which granted short term credits to state industry and trade; the Postal Savings Bank, whose task was to attract and hold the population's free money and grant credit to cooperatives, small-scale enterprises, tradesmen, and peasant farms; the bank of budgetary financing and granting of long-term credit to industry; and institutions of the national credit system (cooperative), which grant credits to cooperative organizations.

The centralization of the banks during the period of nationalization yielded a certain positive effect; it made it possible considerably to improve bank work, to reduce operating expenses, and most important to control the movements of the clientele's accounts.

The nationalization of the banks in Czechoslovakia with respect to its class essence, methods, aims, and political and economic consequences, had nothing in common with the so-called "nationalization" of the central emission and certain commercial banks which was carried out after World War II in Britain, France, and a number of other capitalist countries where the fictitious nationalization only intensified the exploitation of and imposed a still greater burden upon the workers who had to pay tremendous sums of compensations to the former owners. Reflecting the further growth of the state monopolistic tendencies during the era of the overall crisis of capitalism, this "nationalization" touched only the central emission bank and certain commercial banks (France, 1945), or only the emission bank (Britain 1946), with the stockholders receiving a solid compensation.

The program of the Communist Party of Great Britain pointed out that the capitalist nationalization did not change the nature of the exploitation of the workers, insofar as the compensation paid to the former owners made it possible for the latter, as previously, to receive non-labor income at the expense of the workers with the payment of compensation being guaranteed by the state authority. The same capital remained in the hands of the capitalists and only the form of the securities changed.

As a result of the nationalization and well-thought out re-organization of the banks a new credit system was created in Czechoslovakia which according to its social nature, functions, and aims differed fundamentally from the old system. The nationalization of the banks and the organic change of their activity were of tremendous economic and political importance. One of the most

important weapons used by the Czechoslovak bourgeoisie in its economic dominance was snatched out of its hands. The nationalization of the banks not only eliminated bank capital but also dealt a severe blow to the industrial bourgeoisie which through its monetary transactions and the issuing of stocks was closely tied in with the large-scale banks.

The nationalization of the banks led to a situation in which foreign capital lost its former control over the banks of Czechoslovakia and thus was deprived of the opportunity of penetrating all branches of the Czechoslovak national economy.

By possessing the credit system the state received an apparatus that keeps accounts on the scale of the entire country in the interests of constructing socialism. The nationalization of the banks was carried out by people's democratic Czechoslovakia as a socialist reform, as a necessary link in the whole chain of measures aimed at the fundamental change of the entire means of production, and at the transition from capitalism to socialism.

2. The Re-organization of the Credit System

The nationalization of the banks was only the first step toward the re-organization of the credit system. The government of people's democratic Czechoslovakia continued to develop and improve its credit and banking apparatus in complete conformity with the requirements of the national economy of a country moving along the path to socialism.

During the first years of the restoration period the capitalists -- merchants and small-scale industrialists -- made use of the credit resources of the state bank system. This was necessary in order to develop commodity turnover and to speed up

the rates of restoring all branches of the economy. With the development and strengthening of the socialist way of life, the share of credits granted to it increased and that of the credits granted to the private capital way of life decreased. In order to establish the domination of the socialist way of life it was necessary to limit and then to abolish the private capital in industry and trade. In 1948 soon after the defeat of the reactionary forces access to bank credit was completely closed off to private capital elements.

The then still existing system of commercial credit with promissory note transactions which played a positive role during the first years of the restoration of the economy no longer conformed to the planned running of the Czechoslovak economy. It did provide for financial control of the activity of enterprises. In order to meet their expenditures each of them could receive funds not only from a bank but also by way of mutual commodity credit -- from other enterprises. With this system of crediting the actual use of bank resources was concealed.

The granting of commercial credits hindered the introduction of business accountability and the development of credit planning. The Communist Party and the government of Czechoslovakia were confronted by an urgent task -- that of introducing new credit methods and of increasing the control over the use of bank loans directed to branches of the national economy. By governmental decree of 11 March 1948 commercial crediting was prohibited and earmarked, direct, term, and reimbursable bank crediting of national enterprises was established. The latter were obliged to hold the free monetary funds on settlement accounts in banks and when making payments to make maximum use of non-cash settlements so as to be able thus to reduce the need for cash.

The decree of 11 March 1948 was published with the aim of intensifying bank control over the economic activity of state enterprise and their fulfillment of production plans and of strengthening the planning discipline in the use of bank credits. It contributed to the conversion of enterprises to business accountability.

However the credit system of Czechoslovakia still was cumbersome. The number of banks remained too large and parallel operations were observed. The extreme necessity was felt for the further centralization and specialization of the banks.

On the request of the Communist Party the government of Czechoslovakia adopted on 16 January 1948 (in supplement to the decree of 24 October 1945 concerning the nationalization of joint stock banks) the law "the Fusion of Commercial Banks." According to this law the 15 Czechoslovak banks were united into 5 banks: the Zhivnostenskiy Bank, the Legio Bank, and the Moravian Bank in Czechia and the Slovakian Bank and the Tatra Bank in Slovakia.

The Zhivnostenskiy Bank, with which the Prague Bank was incorporated was supposed to be engaged in granting credit to enterprises in the mining and refining industry: mining, metallurgical, machine building, power, chemical, textile, paper and glass. Seventy percent of the total capital of commercial banks was concentrated in the Zhivnostenskiy Bank.

The Legio Bank united with the Farm Bank. Its function included the granting of credit to enterprises of the food industry: sugar, flour, brewery, and margarine factories. The Legio Bank received 20% of the total capital of the commercial banks.

The Moravian Bank united with the Central Cooperative and Plzen Bank and concentrated 10% of the capital in commercial banks. The function of the Moravian Bank included the granting of credit to cooperative enterprises.

The Tatra Bank fused with the Central Slovakian Bank. Its purpose was to grant credit to the industry of Slovakia.

The Slovakian Bank united the Myyavskiy, National, and Peasant banks. It was supposed to grant credit to industry and cooperatives in Slovakia.

The justification for the specialization of the banks was 2 governmental decrees: the decree concerning the nationalization of industry and mines and the decree concerning the nationalization of the food industry. By means of these 2 decrees all Czechoslovak industry was divided into 2 groups: mining and refining. A credit institution was created for each group.

The fusion of the commercial banks into 5 large banks made the credit system somewhat more efficient, facilitated their control over the activity of the clientele, cut operating costs, and made it possible to keep the work better organized. But by the law of 16 January 1948 the government did not solve all the tasks in the field of credit which had been formulated in the July 1946 program.

After being chased out of industry the bourgeoisie attempted to become strong in the banks and showed severe resistance to their re-organization and specialization. The bourgeoisie's false slogan of the necessity of preserving the free competition of the banks in essence expressed the bourgeoisie's desire to get a foothold in them

and to carry out their policy there against the regime of the people's democracy. But the workers of Czechoslovakia unmasked the complete falsity of that slogan and under the leadership of the Communist Party in bitter struggle against the bourgeoisie and reactionary elements then working in the government achieved the re-organization of the banks on a socialist basis.

In order still further to centralize and simplify the credit system the government of the revived National Front on 25 March 1948 adopted a decision concerning the further fusion of the commercial banks. Instead of 5 banks 2 were created for granting short term credit to national industrial and trade enterprises: one bank for Czechia and the other for Slovakia. The Zhivnostenskiy Bank functioned in Czechia and the Tatra Bank in Slovakia.

However the rapid development of the country's economy demanded the improvement of the credit system. Striving to have the banks adapt as much as possible to the needs of the socialist construction the National Assembly of the Czechoslovak Republic on 20 July 1948 confirmed the law "the Organization of a National Credit and Monetary System," which confirmed the credit establishments: National Bank, credit banks, Investment Bank, Postal Savings Bank, and institutions of the national credit and monetary system (co-operative organizations).

Until 1950 the National Bank was the sole center of monetary emission, regulation of monetary circulation, and credit. It also received deposits, carried out encashment operations, and commission orders (purchase and sale of securities, foreign currency), etc. The fixed capital of the bank was 500 million Czechoslovak korunas.

The balance sheet of the National Bank, as of 31 March 1950
was as follows:

ASSETS

	(in 1,000 of Czechoslovak korunas)
Gold and foreign coins	3,349,026
Promissory note account	23,518,000
Loans as securities	1,197,575
Securities	72,402
Cash on hand in coin and small denomination paper money	784,830
Other assets	47,575,707
Total	76,497,540

LIABILITIES

Fixed capital	500,000
Reserve funds	782,060
Banknotes in circulation	68,446,980
Obligations subject to daily settlement (demands of creditors on settlement accounts)	702,377
Obligations with other deadlines for payment (treasury notes)	141,000
Other liabilities	5,925,123
Total	76,497,540

As a result of fusion with other banks the credit banks -- the Zhivnostenskiy Bank for Czechia and the Tatra Bank for Slovakia -- became very large-scale credit institutions.

The balance sheet of the Zhivnostenskiy Bank in 1945 was

16,021 million korunas in 1945 (Czechoslovatskiy yezhmesyachnyy ekonomicheskiy spravochnik [Czechoslovak Monthly Economic Handbook], No 114, 1948, pages 23-24), 26,173 million korunas in 1947, and 63,626 million korunas in 1948 (Rude pravo, 16 September 1948).

The total amount of capital at the disposal of the Zhivnostenskiy Bank as of 1 January 1948 was 59,400,000 korunas. The bank had 3,308,000 korunas as savings deposits. The total of promissory note credits and credits on current accounts as of the same date was 42,507,000 korunas. The banks "own funds" came to 865 million korunas of fixed capital and 538 million korunas of reserve capital (ibid).

The newspaper Rude pravo wrote about the Zhivnostenskiy Bank in September 1948: "...this tremendous apparatus is now completely engaged in the nation's creative labor: it has completely changed the bank's mission in the former sense of the word. It is no longer a means by which a small group of finance capitalists can concentrate political and economic authority."

The Postal Savings Bank was created in 1930. Its task included the accumulation of the population's free funds. By law of 20 July 1948 its functions were expanded. The postal savings bank was changed into an all-state settlement center where the population's monetary assets were collected and used in the system of the national economy. The postal savings bank was authorized to accept deposits on current accounts from banks, institutions of the national credit and monetary system, and insurance associations, and to grant loans to public organizations.

As a result of the steady growth of budgetary appropriations

for the national economy it became necessary to create a special institution for the budgetary financing of capital construction and the control of the use of funds released. These functions were entrusted to the Investment Bank which was organized in accordance with the law of 20 July 1948 on the basis of 4 credit institutions: the Czechoslovak Re-discount Bank, the Land Bank of Moravia and Silesia and the Slovakian Mortgage Bank and Municipal Bank. In addition to budgetary financing the Investment Bank granted long term credit to industry and construction thus considerably expanding that type of granting loans. The Investment Bank played an especially large role in financing the First Five-Year National Economic Plan.

According to the law of 20 July 1948 in each populated place it was authorized to open just one independent credit establishment: in regional centers -- regional savings-and-loan offices; in major populated places -- savings-and-loan offices; and in villages -- Kampelik loan offices. All these institutions were cooperative ones. Organizationally they were subordinate to the Central Council of Cooperatives and in their financial activity to the Ministry of Finance.

The network of institutions in the national credit and monetary system was subdivided and as of the end of 1951 comprised:

	Independent institutions		Branches		Total
	Czechia	Slovakia	Czechia	Slovakia	
Regional savings-and-loan offices	177	79	193	8	457
Savings-and-loan offices	425	21	27	-	473
Kampelik loan offices	2,939	853	2	-	3,794
Total	3,541	953	222	8	4,724

These credit institutions were obliged primarily to carry out operations involving deposits to the current accounts of organizations and involving the attracting of the public savings. In addition they continued to grant credit to municipal enterprises, uniform agricultural cooperatives in their region, and to their individual members.

The 1948 bank reform carried out under the direction of the Communist Party of Czechoslovakia made it possible for the people's democratic state to delimit short term and long term credit in the national economy, to determine accurately the functions of the individual credit links and to increase control over production and circulation.

The new credit system contributed to the strengthening of industry, agriculture, trade, and other branches of the national economy and to the strengthening of the positions occupied by state and cooperative organized in their battle against private capital. About 58 billion korunas constituted the long term bank credits according to the 2-year plan. The bulk of these funds was directed to industry producing producer goods. More than 12 billion korunas were invested in agriculture in accordance with the 2-year plan. In addition to the appropriations for the mechanization and electrification of agriculture, drought combat, and the mastery of neglected land, considerable funds were released for granting aid to small peasant farms.

The granting of credit to agriculture assisted the transformation of small scale dismembered individual farms into large scale collective production. The granting of credit to agriculture helped the rapid growth of the rural areas and the raising of the material and cultural level of the working peasantry.

There was a considerable increase in the banks' operations on long term crediting of transport and living and cultural construction. But in the course of fulfillment of the First Five-Year Plan for the Development of the national economy the credit system of the Czechoslovak Republic was confronted with new still more complex problems. It was necessary to mobilize large scale monetary resources in order to finance socialist construction, to organize state accounting of production and distribution of products to carry out control by means of the koruna over the process of plan fulfillment, to strengthen business accountability, economy measures and to increase the profitability of socialist enterprises, to increase credit and cash planning in the system of the overall national economic plan, etc. It was necessary to create a single center of regulating monetary circulation, short term crediting, and settlements in the national economy, to introduce the standardization of working capital of socialist enterprises, and to provide the latter with their own working capital, to establish uniform accounts for enterprises, etc. Only a State Bank with a large number of branches could serve as such a center.

By law of 9 March 1950 the State Bank of the Czechoslovak Republic was created.

The organization of this bank completely reformed the old credit system of Czechoslovakia into a new, socialist one.

3. The Present Banking System

The principal features of the credit system in effect in Czechoslovakia are: strict and consistent centralization; delimitation of the functions of short term and long term crediting;

the planning of the volume and trend of credit in conformity with the national economic plan; wide use of banks for the financial control by means of the koruna of the activity of state enterprises.

The credit system is headed by the State Bank of Czechoslovakia which has taken upon itself all the rights and obligations of the National Bank, the Zhivnostenskiy Bank, the Tatra Bank, and the Postal Savings Banks as of 1 July 1950. The State Bank has not only united the banks, but has also fundamentally changed the content of their work in granting credit and in making settlements. It is responsible for emission, regulates monetary circulation, and serves as the sole all-state organ for short-term credit and as the currency, settlement, and cash center of the country.

Within the limits of its activity the State Bank has the right: to demand that the organizations receiving credit present documents and records characterizing their work; and to publish instructions on crediting and settlements, which are approved by the minister of finance upon the consent of the appropriate central institutions.

The State Bank presents central institutions with information necessary for preparing financial plans and for the control of the economic activity of enterprises. Being the sole center for short term credit and settlement and cash operations, it has broad opportunity to control the work of enterprises. The State Bank is informed about all economic transactions of enterprises and this helps the bank to check the degree of accuracy and economy with which they expend funds and to keep track of the growth of production, the increase in its quality, the acceleration of sale of goods, turnover rate of working capital, increase in profitability, etc.

As the sole organ of short term crediting to branches of the national economy the State Bank allocates monetary resources among socialist enterprises and organizations in conformity with the established limits and with a consideration of the fulfillment of production programs.

When granting credit to enterprises and economic organizations the bank daily checks how they utilize their own and borrowed working capital and fulfill their financial plans and checks the state of material assets, debtor creditor indebtedness and settlements between suppliers, clients, and banks. The necessary requirements of bank crediting are definite time limits and repayment of the loans.

On the order of credit various branches of the national economy receive the bank's own and drawn-on funds (principally cash reserves of enterprises and institutes), and free funds of the state budget which are held in the bank.

The State Bank is intrusted with an important task -- the organization and control of settlements in the national economy. All payments made by socialist enterprises and organizations are made by a non-cash procedure by transferring the corresponding sums from the settlement account of payer to the settlement account of the supplier. The State Bank also issues to enterprises and organizations cash which is needed for current payments. The bank, however, checks to see that the funds are used for the purposes authorized.

The bank uses credit and settlement sanctions against violators of payment and credit discipline, for example, for loans that are not paid on time the economic organs pay an increased rate of interest the amount of which can reach 8-12% per year.

The State Bank also carries out cash use of the country's state budget. This makes it possible for the bank to carry out centralized accounting of the budget income and expenditures and to check on the spot how the budgetary funds are being expended.

The bank also draws up a plan of the payment balance sheet for settlement with foreign countries and checks them. On the commission of the government the bank offers and receives foreign credits, issues guarantees, buys and sells payment documents written out to foreign currency, valuable metals, and also on the orders of the minister of finance represents its state in international financial organizations. Such are the principal functions of the State Bank of the Czechoslovak Republic as determined by its charter.

The structure of the bank was published 13 October 1950. But significant changes have been made in it in subsequent years. During the period from 1950 through 1952, 4 departments -- emission, credit, foreign operations, and economic -- and a personnel administration were created in the State Bank board of directors. In practical activity the board of directors not only directed the branches of the bank but also engaged in operational work with the clientele in the capital, Prague.

The second organizational stage was the establishment in 1952 of regional offices of the State Bank whose managerial activity at that time had not yet been separated from its operational activity.

Then regional branches began to be created (not in all areas at first). The transfer to the bank of the functions of

granting credit to municipal enterprises and to uniform agricultural cooperatives demanded the organization of bank posts in establishments of the national credit and monetary system. By the end of 1953 branches of the State Bank had been organized in all areas of the country.

The State Bank of Czechoslovakia is subordinate to the Ministry of Finance. The general management of the bank is entrusted to the minister of finance of the Czechoslovak Republic, but its affairs are directed by the general director who acts in the name of the State Bank. In his activity the general director is subordinate to the minister of finance. The general director and his deputy are appointed and relieved by the government on the recommendation of the minister of finance.

Individual sectors of the bank are directed by the head directors, head bookkeeper, and head inspector; the regional administration in Slovakia is directed by a head (regional) director.

The head directors of the bank are appointed and relieved by the minister of finance at the recommendation of the general director. As regards the head director of the regional administration in Slovakia, he is appointed on the recommendation of the authorized financial agent in Slovakia.

According to the charter the head directors, head bookkeeper, and head inspectors are members of the board of directors of the State Bank. The chairman of the board of directors is the general director. The board of directors is made up of an emission and cash administration, economic planning administration, 4 administrations for granting credit to industry, individual

administrations for granting credit to trade, agriculture, and state deliveries, an organizational estimate administration, foreign operations administration, head bookkeeping department, inspection administration, and personnel administration. Regional and city offices have similar departments: the management of the credit activity is concentrated in one of them. Each regional office also has an operations administration which serves the clientele of its area instead of the regional branch. The regional branches engage only in settlement and credit operations.

The State Bank is an independent juridical person. It is not responsible for the obligations of the state with the exception of specially stipulated instances. The bank enjoys the rights that belong to national enterprises.

The principal fund of the State Bank was established in the amount of 600 million Czechoslovakian korunas (calculated at present-day rate of exchange). From the deductions from profits the State Bank creates a reserve fund (not to exceed the principal fund). The initial sum of the reserve fund is established by the minister of finance. With the consent of the minister of finance the bank can also create other funds, for example, the board-of-directors fund charged to profit received. The profit remaining after deductions to the funds have been made becomes state income. State Bank losses are charged to the corresponding funds. If the latter prove to be insufficient the state makes good the losses.

The State Bank gives an annual report on its work to the minister of finance who in his turn brings this report to the attention of the government.

The next credit institution of people's democratic Czechoslovakia is the Investment Bank which finances industry and grants credit to construction enterprises. Until 1952 it engaged in granting long term credit to capital investments in branches of the national economy. Since January 1952 long term crediting has been abolished and a system has been introduced for non-reimbursable financing of capital investments from state budget funds through the Investment Bank which checks to see how those funds are used.

An economic organization which receives funds for capital construction is obliged to submit to the Investment Bank a capital works plan, yearly list of investments by objects and expenses, document showing the approval of the plans and estimates and a copy of the approved estimate.

In checking the documents named the Investment Bank finds out whether the planned expenditures for capital investment conform to the approved norms and the funds stipulated for these purposes by the state national economic plan and the budget.

In the process of financing the Investment Bank observes the rate at which the economic organs are fulfilling the approved capital construction plans and financial estimates. For this purpose the bank receives reports on the rate of fulfillment of the capital construction plans. In case of violation of finance discipline the Investment Bank has the right to cease financing construction. The bank has opened regional branches in all regional and administrative centers and sections at major construction enterprises.

The administration of the Investment Bank is constructed similarly to that of the State Bank.

Until December 1952 the system of the State and Investment banks was still insufficiently developed. In all those places where there were no branches, all credit, settlement, and control operations were carried out through institutions of the national credit and monetary system. But with the organization of a State Bank branch in each regional center it was no longer necessary to have cooperative credit institutions.

By the law of 11 December 1952, "the Organization of the Credit and Monetary System," the institutions of the national credit and monetary system were abolished. To replace them state workers' savings banks were created in all regional centers, and branches of them or agencies, were created in villages and at enterprises.

The principal task of the state workers' savings banks was to receive money deposits, keep them, and issue loans to the public. On the recommendation of the local national committees these savings banks offer short term and long term loans to peasants who either are or are not members of cooperatives. Peasants operating individual farms also receive short term credit to meet current needs: to purchase fertilizers, seeds, to pay for the work of machine tractor stations, and to buy fodder for livestock. It is issued in the amount of up to 50% of the expected proceeds from the compulsory deliveries of farm products to the state. The interest rate on the loans is 5% per year.

Long term credit (from 3 to 5 years) at the rate of 4%

a year is granted by state workers' savings banks to increase soil fertility for reclamation and to repair living and service structures. The amount of the loan depends upon the ability of the recipient of the loan to repay the amount received from part of his income over the period specified.

Long term credit is also granted to members of uniform agricultural cooperatives to repair their living and service structures and equipment.

In their activity savings banks are completely subordinate to the Ministry of Finance.

Thus the credit system of Czechoslovakia at the present time consists of 3 institutions: the State Bank, the Investment Bank, and the State Workers' Saving Bank. The credit system is headed by the State Bank with a widely developed network of branches.

The successful completion of the re-organization of the bank system has made it possible to make a clear-cut delineation between the functions of credit institutions and thus to create all the necessary pre-requisites for improving financing, crediting, and the organization of settlements in the national economy of Czechoslovakia.

4. Principles of the Organization of Financing, Crediting, and Settlements in the National Economy

The stable financial position of the people's democratic Czechoslovakia depends primarily upon the rapid organization and the coordination of the work of national and municipal enterprises (the term "national," that is, nationalized enterprises is used in conformity with paragraph 155 of the Constitution of the Czechoslovak Republic and the term "municipal" enterprises in conformity with paragraph 149 of the

Constitution. Both national and municipal enterprises are state, all national property, upon the inculcation of business accountability, strict system of economy in expending material and monetary funds, and upon the increase in labor productivity and planned accumulations.

The principle of business accountability as a method of planned management was consolidated by the decrees "Nationalization of Mines and Certain Industrial Enterprises," "The Nationalization of Certain Enterprises of the Food Industry," the law "The Further Nationalization of Certain Industrial and Other Enterprises and the Regulation of the Relations of Nationalized and National Enterprises," and a number of subsequent decrees and orders (see collections of laws and orders of the Czechoslovak Republic 100/1945, 101/1945, 114/1948, 115/1948, 104/1950, and 106/1951).

The so-called cash funds necessary for current production are also assigned to national enterprises. The source of forming these funds used to be primarily the pure value of property, that is, the value of all property objects transferred to the disposal of the national enterprises during the period of nationalization. In order to guarantee the unbroken work of these enterprises, the state had to organize the planned financing of their production activity.

A necessary transition stage in the development of the financing of national enterprises was the creation in 1948 of the Fund of the Nationalized Economy to which enterprises transferred their profits and from which they then received funds for supplementing their fixed and working capital (by governmental decree of 24 October 1948, "The Nationalization of the Mines and Certain

Industrial Enterprises," the Nationalized Economy Fund was created as an independent juridical person to compensate the former owners of the nationalized enterprises for their value. In 1948 by decree of 11 March the fund's functions were expanded. It was given the task of financing national and communal enterprises and of regulating their funds).

The fund became the center of financing national enterprises. This was preceded by a governmental order that enterprises were to draw up initial balance sheets. The latter showed that for some enterprises the initial funds were small in comparison to the production assignments whereas for others there was an excess of funds. It was possible to establish normal work methods by lowering the obligations of individual enterprises and regulating the distribution of initial funds and coordinating the financing of those enterprises which did not have sufficient initial funds for their production activity.

By law of 22 March 1948 "The Regulation of Certain Financial Relations of National, Industrial, and Food Enterprises," problems of the distribution of funds and the organization of financing were partially resolved.

The execution of the law was carried out gradually since it was necessary still to undertake a great deal for the regulation of the financial relations of the national enterprises. Great responsibility was entrusted to individual ministries (particularly the Ministry of Finance), which were supposed to work out specific instructions and rules for introducing the new procedure of financing. The law did not anticipate the division of the funds of the national enterprises into fixed and working. It established that the allocated

funds were to be equal to the entire aggregate of the enterprise's balance sheet assets, its capital investments, and current reserves of raw and other materials.

The governmental law of 26 October 1948, "The Further Nationalization of Certain Enterprises," was an important measure. It mentioned the necessity of organizing accounting and reports of the national enterprises, of including in their system new nationalized enterprises and of adjusting normal relations among them.

By the law, "The Regulation of Certain Financial Relations in New National Enterprises," which was adopted in 1949 the action of the law of 11 March 1948 was extended to a number of new nationalized enterprises.

The rapid development of the socialist sector of the economy, the introduction of financial planning demanded the further improvement of the system of financing capital investments and the current production of enterprises. The latter's own funds had to be increased to amounts that would have made it possible for the enterprises to fulfill their production obligations envisaged by the plan for the national economy. This was determined by the law of 13 July 1950, "The Financing of National and Communal Enterprises." Through the Fund of the Nationalized Economy the state entrusted to the national and municipal enterprises funds for the financing of capital investments and current production and regulated the granting to such enterprises of working capital on the order of credit.

The accumulation of national enterprises, the proceeds from the state budget, etc served as the source of the assets of the Fund of the Nationalized Economy. The fund received assets which had formed as a result of the reduction in the amount of the enterprises'

fixed and working capital; profit on the approved final balance sheet after workers in the enterprises had been transferred to the fund; interest from the cost of the property transferred to the enterprises according to established government rates; sums equal to the write-off of unusable and written-off equipment; liquidated balances of closed enterprises, and sums to compensate for the value of nationalized property which sums were not paid to the owners according to the legislature on nationalization; and other proceeds for special enterprises.

Unlike the law of 11 March 1948 the law of 13 July 1950 envisaged the division of the enterprises' funds into 2 parts: fixed and working assets. The Departmental Ministry [domstvennoye ministerstvo], jointly with the Ministry of Finance, established the amount of the working assets of each enterprise according to the specific conditions of its work: peculiarities of supply, sales, and the organization of production.

The law of 13 July 1950 determined the amount of fixed capital and indicated in detail how to regulate the laws of the Fund of the Nationalized Economy and the enterprise. The fixed assets were determined as the difference between the value of the property received by the enterprise and the amount of obligation which it took upon itself. The enterprise either had its original fixed assets increased through subsidy from the Fund of the Nationalized Economy or had its obligations reduced.

The method of financing the capital investments of enterprises was changed. Formerly national and municipal enterprises covered their expenses for capital investments with credits from the Investment Bank. According to the new procedure these enterprises'

expenditures for capital investments were compensated through the Investment Bank from the assets of the Fund of the Nationalized Economy on the order of non-reimbursable financing.

Striving to limit the enterprise's use of unplanned sources and to intensify financial control the government established that all funds received and expended by the enterprise were to go through banks. The enterprises were prohibited from granting credits to one another and from mutually paying off obligations by way of compensation. Payments were supposed to be made by transferring the appropriate sums from the accounts opened up in banks.

The enterprise's finance plan -- now a component part of the finance plan of the entire national economy the same as the enterprise's accumulations -- is made up of state accumulations used to develop the country's economy. Therefore in addition to the minister who is responsible for the enterprise the law has also empowered the minister of finance, the chairman of the State Planning Administration, the State Bank, and the Investment Bank to control the enterprise's fulfillment of the finance plan.

For the better mobilization of funds directed at developing the national economy and for the further strengthening of finance discipline the intensification of control by means of the koruna and the increasing of the ministries' responsibility for the financial state of the enterprises subordinate to them, the National Assembly on 19 November 1951 adopted a law according to which effective 1 January 1952 a new procedure was introduced for financing national and municipal enterprises. These enterprises are financed not through the Fund of the Nationalized Economy,

but directly by the state budget. Long term crediting of capital construction of national and municipal enterprises by the Investment Bank was abolished.

Thus in 1952 the state budget became the basic finance plan of Czechoslovakia which determines the mutual relations of the state with all branches of the national economy. The financial activity of each enterprise is carried on according to yearly and quarterly finance plans.

In conformity with the national economy plan the state budget gives the ministries assignments for collecting the turnover tax, deduction from profits, for withdrawing the excessive assets of the enterprise, and for guaranteeing the proceeds of other budgetary income. Simultaneously each ministry has established for itself the amount of appropriations from the budget to finance capital construction, to increase the assets, to cover planned losses, etc.

The finance plan of each ministry also determines the amount of the profit of the enterprise which the ministry retains at its disposal for the financing of capital construction and for increasing the assets. When all the conditions are met the plan must envisage a deduction to the state budget of not less than 10% of the planned profit. As regards amortization deductions and income from movable property, they are used for capital constructions and capital repairs in the enterprises and the surplus becomes income of the state budget.

The minister allocates through the main administrations the budgetary appropriations and planned profit remaining at the disposal

of the ministry, and in their turn the main administrations allocate these funds among the enterprises subordinate to them.

According to the law of 19 December 1951, "New Procedure of Financing National and Municipal Enterprises," all national and municipal enterprises are provided with their own fixed and working assets in strict conformity with the state budget and the finance plans of the ministries.

The minister of finance (after coordination with the minister of internal affairs) has the right to order municipal enterprises to make the payments due from them not to the state budget, but to local budgets of national committees and from there to receive the necessary appropriations.

It is authorized to re-allocate the working assets. The minister re-allocates them among the main administrations and the main administrations among the enterprises. The Ministry of Finance (in coordination with the State Planning Administration) publishes detailed instructions concerning the procedure of re-allocating working assets. In order to maintain a steady process of production, national and municipal enterprises receive short term credit for seasonal stockpiles of materials, fuel, incomplected production, finished output, commodities en route, and other temporary needs (on the decision of the government).

The ministers answer to the National Assembly and the government for the financial activity of their ministries, the main administrations and enterprises subordinate to them, for the fulfillment of finance plans and obligations to the state budget, and for the maintenance of fixed and working assets allocated to the enterprises.

The activity of the Fund of the Nationalized Economy in the financing of enterprises and the obtaining of funds from them and from the state budget was stopped effective 1 January 1952. The indebtedness of national and municipal enterprises to the Investment Bank on long term credits as of 1 January 1952 was covered by budgetary appropriation.

The bulk of monetary assets accumulated by the budget is allocated by means of non-reimbursable financing of individual branches of the national economy and enterprises. But great fundamental and economic importance attaches to the widely-used bank credit which lies in the fact that temporarily free monetary assets are transferred to enterprises under conditions of reimbursability and for the use of the money the debtor pays interest to the bank. The credit relations are organized by the state, directed by the national economic plan, and carried out by the State Bank, the Investment Bank, and the saving banks. The short term credits for branches of the national economy and for enterprises are carried out only through the State Bank of Czechoslovakia.

The working assets of the enterprises are formed out of their own means and temporary loan funds granted to them on the order of short term credit.

In order to guarantee uninterrupted payment by national enterprises bank loans are issued not only for seasonal but also for non-seasonal needs. This helps the observance of planned deadlines for the turnover rate of funds not only in branches with a seasonal nature of turnover but also in branches which have a steady cycle of production and do not require a seasonal accumulation of materials or seasonal expenditures. In both instances enterprises are provided

only with a certain minimum of their funds, and part of the working assets is granted temporarily on the order of crediting in conformity with the deadlines for turnover of material assets.

By crediting only definite objects, the bank issues loans only in the amount of the actual expenditures of the enterprise for the object for which credit is issued and within the limits of planned norms. Objects for which credit is granted are production reserves having a seasonal nature (raw and other materials, fuel), planned production reserves, and non-seasonal expenditures in the process of production, above plan balances of commodity and material assets which have formed for reasons for which the enterprise is not responsible, seasonal reserves of finished output, unloaded commodities, etc.

Appropriate decrees have determined that a bank loan can be used for not more than one year. In exceptional instances (with the consent of the Ministry of Finance) the time can be extended. Credit is paid off by the debtor completely or in parts within the established time limits.

The pre-requisites for the organization of bank control were created only after the victory over reactionary forces in 1948. By the law of 11 March 1948, "The Regulation of Certain Financial Relations of National Industrial and Food Enterprises," the banks were obliged to control the activity of the enterprises.

But during that period bank control proved to be still weak since planning and bookkeeping were still incomplete. During the process of bank control insufficient distinction was made between own and borrowed funds, credits were also granted for non-earmarked purposes, the proper check of their material supply was not carried out, and time limits for paying off indebtedness were

not established. All these factors of course did not contribute to a favorable action of bank control upon the economic activity of the enterprises.

The current accounts of enterprises were gradually liquidated and settlement accounts and accounts for earmarked credits were opened up to replace them. But the earmarked purpose of loans issued formally decreased and bank control was expressed only in the sub-allocation of the loans into credits for seasonal and above norm reserves and for settlement documents en route.

The essence of credit for the so-called temporary needs was also incorrectly interpreted. It was even granted when enterprises submitting a credit requisition were unable to prove that the loan would be guaranteed or to justify the reason for the shortage of funds on their own settlement accounts. This practice of crediting led to a situation in which loans were issued for the liquidation of the indebtedness of purchasers on overdue payments, to cover non-planned losses, and even for wages. The principle of the material guarantee of credit was not observed and the principles that loans had to be repaid within definite time limits were poorly carried out. The established time limits for paying off the loans were frequently prolonged. This situation contributed to the violation of the socialist principles of short term crediting. It was necessary to eliminate these shortcomings.

The "Basic Rules for Organizing Short Term Crediting and Settlements," which in effect were a credit reform, went into effect in the beginning of 1953.

The credit reform eliminated the incorrect practice of granting loans, put the end to materially unguaranteed credits,

eliminated automatic crediting and established control over earmarked purpose, time limits, and repayment of loans. A new phase began in the organization and further strengthening of bank control over the financial activity of the enterprises, and a new procedure was introduced for granting short term credit to individual branches of the national economy, uniform agricultural cooperatives, state deliveries, and state agricultural farms -- state farms, timber management, railroads, etc.

According to the new instructions the State Bank issues credits to uniform agricultural cooperatives for definitely stated seasonal expenditures. Loans are no longer granted as an advance on workdays.

Taking into consideration the peculiarities of large-scale agricultural production, the State Bank influences by credit the observance of economy methods on the state farms when expending funds for farm operations and animal husbandry.

The changed order in the crediting of procurements helps guarantee the steady payment of them and helps carry out regular control of the receipt of procured output.

The carrying out of the "Basic Rules for Organizing Short Term Crediting and Settlements" contributed to the more complete execution of the principles of socialist crediting and the conversion of short term credit into an effective means of controlling production and turnover. It has strengthened financial discipline and improved the activity of all branches of the national economy, uniform agricultural cooperatives, etc.

An important role in increasing the control by means of the koruna which the State Bank exercises over the work of enterprises was played by the decree adopted by the party and government in June 1955 concerning the application of a special system of crediting and settlements to poorly operating enterprises and the granting of benefits to well-run enterprises which are temporarily experiencing financial difficulties.

Non-cash settlements also have taken on great importance in Czechoslovakia. In the socialist society such settlements are made on the basis of planned circulation of monetary assets. They release from circulation tremendous masses of cash and contribute to the saving of them.

With the development of the Czechoslovak economy there is an increase in the payment turnover among its economic organizations and with the increase in economic turnover as a rule there has also been an increase in the total sum of monetary assets on the accounts in banks. Constantly moving from account to account these funds replace cash in the turnover of state enterprises.

If additional payment funds are needed for the country's economic turnover they are granted by the State Bank itself by way of short term credit.

In addition to non-cash settlements payments in cash also exist in Czechoslovakia. Enterprises and organizations receive from their accounts in the bank cash to pay the wages of workers of employees and for other payments to the population.

The system and organization of settlements in the Czechoslovak Republic have traveled a long way in their development.

At the present time the settlement relations here are based on the following principles: (1) payments in the vast bulk are made by means of non-cash settlements through a bank which procedure evolves from the bank's tasks in exercising control over the course of production and circulation and is extremely important for the strengthening of monetary circulation; (2) payments are necessarily preceded by the completion of the economic operation. This is dictated by the necessity of introducing business accountability and of eliminating commercial credit; and (3) payments are made only with the consent of the payer and in the event that he has free funds which system also depends upon business accountability and envisaged the payer's control over the supplier's observance of the contract.

Every enterprise, every organization has its own settlement account in one of the branches of the State Bank. Consequently all the settlements between enterprises are made through the particular bank. Only settlements for small sums are made without the bank's participation and therefore the enterprise's cash on hand must be minimal. Sums exceeding the established minimum are deposited in the bank. The latter pays on the settlement documents from the purchaser's account and only with his consent (acceptance of documents by the purchaser) provided the necessary monetary assets are present in the account. The purchaser can refuse to pay the supplier if the latter has violated conditions of the contract.

Prior to 1951 in Czechoslovakia the supplier sent the bill of lading and other documents after the goods had been sent or the services rendered directly to the payer or the payer's bank, and not to his own bank. The contractor's bank fulfilled only the final

operation: after receiving notification from the payer's bank it transferred the sum of payment to the supplier's account. Thus it could not control the time limits for document turnover or the receipt of payment from the payers. As a result the operations only partially passed through the supplier's bank. The supplier himself dealt with the payer's banks. This procedure weakened bank control over the process of unloading and payment of goods, worsened the condition of the suppliers, and complicated the process of settlements.

Using the many years of experience accumulated by the State Bank of the USSR and taking into consideration the results of its own activity, the State Bank of Czechoslovakia on 1 January 1952 organized a new procedure of document turnover on the basis of encashment payment documents.

After shipping the goods or rendering the service to the purchaser the supplier is obliged to hand in the payment demand and bill of lading to his own branch of the bank for encashing the payment. The full utilization of encashment of payments has simplified the system of settlements and made it possible for the State Bank to improve control over the process of supplying and paying for goods.

Effective January 1952 letters of credit were introduced into the practice of making settlements between organizations in different cities and local payment orders between organizations in the same city. In the beginning of 1953 settlements began to be made through the medium of planned payments for local freight turnover and settlements on the basis of paying mutual demands through an office of mutual settlements.

The State Bank of Czechoslovakia is steadily and successfully improving its system of financing, crediting, and settlements, attempting to achieve a situation in which it can also assist the faster and better implementation of the plans for the socialist re-organization of the country.

5. Planning of Monetary Circulation and Credit in the System of National Economic Planning

The planning of monetary circulation and credit in the Czechoslovak Republic became possible thanks to the implementation of the socialist means of production under which the entire economic activity is determined and directed by the national economic plan.

Under the conditions of the socialist economy one aspect of planning monetary circulation and credit is in the organization of the re-allocation of monetary assets in conformity with the needs of the single national economic plan.

Operational planning and the regulation of monetary circulation are carried out by the State Bank on the basis of the credit and cash plans.

The State Bank's credit plan as a state plan for mobilizing and utilizing the resources of short term crediting is based on national economic indexes (volume of production and circulation, re-allocation of financial resources and accumulations, etc). The latter determine the extent and sources of financing and the direction of the credit investments. In addition the credit plan is an organic part of the national economic plan. It provides for the planned release of funds in some branches of the national economy and the temporary directing of them into other branches. This

completely depends upon the rate of fulfillment of the plans for the production and sale of goods.

The credit plan is a synthetic plan. It is made up on the basis of the plans of the individual branches of the national economy and the financial system. The indexes of the credit plan are linked with the indexes of the state budget, the finance plans of enterprises, the Investment Bank, and Savings Bank, the Central Administration of National Insurance, etc. This link between the credit plan and other plans makes it possible for the State Bank to utilize it effectively for controlling the fulfillment of the individual branch plans and the national economy plans as a whole.

The credit plan like the cash plan is made up and approved every quarter. This increases its operational control importance. In the quarterly credit plans which take into consideration the rate of fulfillment of the yearly national economy plan, it is possible to foresee measures necessary for eliminating those things which hinder its fulfillment and to prevent the possibility of having disproportions arise in the country's economy.

Funds for short term crediting which are directed in a planned way by the State Bank of Czechoslovakia to the national economy have earmarked purpose. The need of state enterprises and organizations for loan funds evolves from the state planned assignments.

All temporarily free monetary funds accumulated by credit institutions are allocated in the national economy according to a planned procedure.

Enterprises and organizations proceeding from the production, purchase, and sales plans established for them and also from their own available working assets, prepare requisitions for the obtaining of credit for their own production activity. After receiving the credit requisitions, the State Bank checks to see whether they conform to the enterprises' planned assignments and then on the basis of these requisitions draws up a draft copy of the credit plan.

The beginning of credit planning was laid in 1950. The first credit plan of the State Bank of Czechoslovakia had essential defects: first, it did not take into consideration all sources of obtaining funds and second, the amount of credit planned for the economic organizations was excessively high. This was explained by the fact that the credit requisitions did not correspond to the actual plans for production and turnover, and were somewhat above them. The credit limit was established on the basis of the entire cash deficit of the enterprise, that is, bank credit covered the enterprises' shortage of working assets as a whole. This meant that the State Bank did not take into consideration specific earmarked objects of crediting and consequently did not create conditions for influencing through credit the fulfillment of the economic plans.

The defects of the first credit plan were the consequences of the fact that the State Bank had not yet had experience in planning, was not sufficiently tied in with the enterprises, and had not studied the financial position of each of them. In addition the bank's practical work encountered major difficulties resulting from the still low level of finance work and the unsatisfactory state of bookkeeping at enterprises and in institutions.

The 1950 credit plan was not approved by the government and served only for internal estimate settlements in the bank. The 1951 credit plan for the State Bank was more precise which attests to its certain degree of success in the field of planning. Credit requisitions were subjected to careful control and analysis. The plan provided for earmarked objects of crediting but the bank was not able properly to control the use of credits. During the year changes were introduced into the credit plan and as in 1950 it was not approved by the government.

The February 1951 Plenum of the Central Committee of the Communist Party of Czechoslovakia indicated to credit institutions and primarily to the State Bank the necessity of improving credit planning, of paying special attention to the study of the credit requisitions of economic organizations and the correct utilization and direction of loans. The plenum emphasized that credit institutions must grant loans only within the limits of plan fulfillment since credits in excess of the plan retard the rates of economic development, contribute to the accumulation of excess reserves of raw and other materials, and lead to abuses and violations of payment discipline and the wage payment law.

The State Planning Administration of Czechoslovakia prepared instructions for the drawing up of operational (credit and cash) plans of credit institutions for 1952, taking as its basis the principle of planning used by the State Bank of the USSR. The planning period adopted for the credit plan was the quarter. This plan was to foresee all kinds of loans granted by credit institutions to the national economy.

The planning of credit includes the following factors: the

determination of the amount of short term credit, bills, and private funds of the State Bank the country needs; the comparison and balance sheet coordination of the resources plan and the credit plan; the review of the plan by the Ministry of Finance and approval by the government; and the execution of the credit plan and the organization of control over its rate of fulfillment.

Credits are planned for projects, sectors of the national economy, and individual enterprises and organizations.

The current crediting of investments and the crediting of current turnover serve as objects of crediting. Current crediting of investments is carried out through the Investment Bank; this also includes the crediting of current activity of construction enterprises and their departments, construction municipal enterprises, construction cooperatives, and the crediting of current turnover (loans for seasonal reserves of material assets, for seasonal expenditures, etc).

As regards the planning of credit for individual sectors of the national economy, this is caused by the fact that loans are granted not only to national, municipal, and cooperative organizations, but also in a certain amount to the private sector.

The planning of credit for individual economic organizations is of great importance for the correct re-allocation among enterprises of monetary resources directed toward the fulfillment of the production programs.

An important factor in the planning of credit is the drawing up of balance sheets for principal elements of the credit plan: the amount of funds drawn-on, the amount of credits and if necessary the amounts of emission.

The credit plan shows on the one hand the location of the credits and on the other the sources for the formation of bank resources, that is, it has the form of a planned balance sheet. Its assets show the plan for directing the resources of the State Bank, chiefly loan operations. The liabilities plan for the banks resources, primarily the drawing in of funds. Items in the assets and liabilities are planned in the form of balances as of the end of each quarter. This procedure evolves from the rules which are in effect for the planning of working assets, part of which is bank credit.

The credit plan approved by the government is a directive. In conformity with it loans are issued to enterprises and organizations, temporarily free funds of the credit system and economic organizations are drawn in, and other resources for the crediting of branches of the national economy are used.

Credit planning does not end with the drawing up of the plan. It also includes measures for plan fulfillment, accounting and control by the State Bank over the correct utilization of loans and measures for the accumulation of resources. The struggle for the execution of the credit plan contributes to the active control exercised by the State Bank of Czechoslovakia over the rate of production and turnover.

Planned bank control over the utilization of credit by national enterprises contributes to the strengthening of business accountability, the acceleration of the turnover rate of funds in the national economy, the lowering of costs in production and circulation, and the increase of socialist accumulations.

In addition to the credit plan a cash plan is also drawn up and is used to plan the turnover of cash funds through the cash offices of the State Bank. The role of the cash plan for monetary circulation is determined by the fact that this bank is the sole settlement, cash, and emission center organizing the country's payment turnover and almost all of its cash relations.

The settlements of the cash plan are based upon the balance sheet of the population's monetary income and expenses which reflect the movement of that part of the national income which is distributed among the individual members of society in monetary form in conformity with the quantity and quality of expended labor. This balance sheet is of tremendous importance for planning monetary circulation. With its help a definite ratio is achieved between the amounts of commodity turnover and services to the population and the population's payments to the financial system on the one hand and the population's income on the other.

The balance sheet of the population's monetary income and expenses is a component part of the national economy plan. Its indexes are used during the course of developing plans for production and circulation for coordinating the individual elements of the national economy plan, particularly for coordinating the production of branches producing producer goods with the production of branches producing consumer goods.

The balance sheet of the population's monetary income and expenses serves as the basis of planning monetary circulation, since it reflects the principal flows of cash in the national economy. But it is not an operational document which would make it possible to observe daily the processes taking place in the Czechoslovak

monetary circulation. Thus it becomes necessary in an operational manner to plan and regulate monetary circulation which is what the State Bank does on the basis of the credit and cash plan. In an organizational manner the bank plans and regulates cash circulation on the basis of the cash plan.

The cash plan concentrates and directly reflects the cash payments and proceeds of all enterprises and organizations. It is constructed in conformity with the national economic plans and the state budget and directly evolves from the draft copies of the credit plan.

The cash plan encompasses all sources by which cash flows into the State Bank from economic turnover and all types of expenses for which cash again enters circulation from the bank's cash offices. As contrasted with the credit plan, the cash plan is drawn not according to change in balances but according to transactions. This makes it possible to control and operationally to regulate the proceeds and issuance of cash throughout the entire country and its individual areas.

The first cash plan drawn up by the State Bank in 1951, like the first credit plan, suffered from essential shortcomings. To a considerable extent it was constructed without consideration for the indexes of the national economy plans and in addition a number of major sources of cash were not noted among the cash proceeds of the State Bank. The principal flow of cash went not through the bank, but through the Czechoslovak post office. The latter itself carried out cash payments transferring to the State Bank only the surplus cash.

The 1951 cash plan like the credit plan, was an internal estimate settlement but despite its major shortcomings it still rendered essential aid to the bank in the regulation of monetary circulation.

Subsequently the cash planning of the State Bank was made more complete and improved. Whereas in 1951 quarterly cash plans were drawn up and were then subdivided into months, for 1952 there was a yearly cash plan which was corrected by quarterly plans. The yearly cash plan became an operational plan. It was constructed on: the indexes of the operational plans of enterprises for 1952 particularly the plans for receipts of trading and distribution, transport, entertainment, and municipal enterprises, etc -- for income, and indexes of planned state purchases the wage fund, etc -- for expenses.

Being a plan of cash transactions carried out by all operational links in the bank system the cash plan must be brought down to and is actually being brought down to each branch of the bank. Thus the assignment for monetary circulation is made concrete not only with respect to the economic sources and direction of the cash funds through the cash offices of the bank branches, but also in a territorial cross section.

STRUCTURE OF THE CASH PLAN OF THE STATE BANK OF CZECHOSLOVAKIA

Item No [A]	Debit [B]	Item No [C]	Credit [D]
1	Receipts of trade, restaurants, and cafes	21	Wages
2	Receipts of national enterprises; railroad, water, and air transport	22	Payment for agricultural and non-agricultural state purchases
3	Receipts of local transport	23	Various expenses

[A]	[B]	[C]	[D]
4	Receipts of enterprises providing utilities	24	Operations balance of saving banks
5	Receipts of entertainment enterprises	25	Operations balance of Investment Bank
6	Proceeds from taxes and duties	26	Operations balance of communications enterprises
7	Operations balance of communications enterprises		
8	Operations balance of savings banks		
9	Operations balance of Investment Bank		
	Total		Total
	Putting of money into circulation		Withdrawal of money from circulation

The cash plan is drawn up as a single centralized plan a fact that evolves from the necessity of strictly centralizing the regulation of the mass of money in circulation. In addition the entire system of the State Bank is drawn into cash planning. For example each bank branch draws up a cash plan by area and sends it for approval to the board of directors of the State Bank. All the ministries and central departments, enterprises, and organizations are obliged to submit to the bank institutions the necessary planning and report data that serve as the principal documents when drawing up cash plans in branches and offices and to a certain extent in the bank board of directors.

For totaling and report data of ministries and central institutions and for draft copies of area and regional branches the bank draws up a consolidated cash plan. After this plan is

approved by the government the bank approves the cash plans of the area offices which in their turn examine the plans for the branches introducing the necessary changes in them.

The cash plan brought down to the level of each bank institution, makes it possible daily to control the rate of economic processes affecting monetary circulation to take operational steps to fulfill the plan of receipts of cash into the cash offices of the entire network of the State Bank and to keep track of the economical expenditure of funds.

The system of the planned regulation of monetary circulation by means of the State Bank's credit and cash plans are an important weapon used by the Communist Party and government of Czechoslovakia in the struggle for the fulfillment of the production and commodity turnover plans, for the strengthening of the monetary system, and the further raising of the material welfare of the workers.

CHAPTER III. THE CZECHOSLOVAK STATE BUDGET AND TAX SYSTEM

1. The Budget of Bourgeois Czechoslovakia

The state budget of bourgeois Czechoslovakia in essence was a budget for financing the apparatus of the administration and was of an obviously class nature. It did not contribute to the development of the country's productive forces, completely reflected the interests of monopoly capital, covering the state's expenditures in guaranteeing the dominance of the capitalists in it, and served as a weapon for the militarization of the economy and the financial support of the Czechoslovak monopolies in the critical competitive struggle on foreign markets.

This pre-determined the use of the decisive part of the funds of the state budget for military expenditures, for maintaining an apparatus of oppression and coercion, and for subsidizing the capitalists and landlords. As regards expenditures for social and cultural measures, meager crumbs were left for them.

V. I. Lenin remarked that in all capitalist states the central authority expends large sums for the army, etc and paltry sums for cultural purposes. "Is this division in bourgeois society necessary? It is necessary since in a bourgeois society the bourgeoisie could not dominate if it did not spend large sums to guarantee its own dominance as a class, leaving very little for cultural expenditures" (V. I. Lenin, Soch., Vol 13, pages 311-312).

The aggravation of the contradictions of capitalism in bourgeois Czechoslovakia steadily increased the unproductive budgetary expenditures which kept exceeding budgetary income. In this regard the state budget as a rule was run with a deficit.

During the 25 years of existence of the bourgeois Czechoslovak Republic the budget was balanced only 6 times.

The chronic deficits of 1919-1923 as has already been pointed out, caused an increase of paper money in circulation, taxes, and domestic and foreign debts, which lay as a heavy burden on the shoulders of the workers.

By 1923 the budget formally was almost balanced. But this picture which at first glance seems to be favorable, changes sharply if one takes into consideration the fact that it does not include the state's tremendous expenditures for administrative and military construction (construction of buildings to house governmental organs, military plants, border fortifications, etc) which since 1921 were put on a special "investments" budget (In 1921, the expenditures on the "investments" budget came to 3.2 billion korunas; in 1922, 3.3 billion; and in 1923, 3.0 billion).

Taking these expenditures into consideration the overall budgetary deficit is given in the following table (A. Spitaler, Zehn Jahre tschechoslowakische Steuerpolitik, Reichenberg, 1929, pages 20-23, 30-31).

(in billions of korunas)				
1919	1920	1921	1922	1923
4.9	4.9	3.9	4.2	3.6

The tremendous deficits were caused by the steadily increasing expenditures for the army and armament (from 1.7 billion korunas in 1919 to 3.1 billion korunas in 1922), the increase in expenditures on the state debt (increase by 5 times) and subsidies to local financial organs (increase by 20 times), and to railroads (increase by 4 times).

In order to cover those expenditures, the government steadily increased taxes and the country's national debt. From 1919 through 1922 the proceeds from direct taxation trebled, indirect taxation increased by 7 times; duties and customs, 18 times; and income from fiscal monopolies, 3 times. Indirect taxes were the weapon that the bourgeoisie grabbed at first of all.

But despite the fact that new taxes were regularly approved and the rates of the old ones increased, the tremendous non-productive expenditures of the state continued to lead to deficits.

By 1922 the domestic sources of increasing the state income were completely exhausted and the government was forced to resort to a foreign loan by taxing income from the tobacco monopoly and from the customs offices. The 1922 loan was floated in Britain (2.8 million pounds sterling), the Netherlands (0.5 million pounds sterling), and the United States (14 million American dollars).

The depression of 1921-1922 made still worse the country's financial position. The masses of the people suffered from an insuperable tax burden. The taxation arrears grew rapidly.

The issuing of domestic loans to cover the chronic budgetary deficits greatly increased the state debt, which is itemized below (A. Spitaler, op. cit., pages 58, 61).

(in millions of korunas)

	As of 1 Jan 1920	As of 1 Jan 1921	As of 1 Jan 1922	As of 1 Jan 1923	As of 1 Jan 1924
Total	7,285	13,392	19,050	22,218	24,627
Including					
current debt 1,048	2,584	4,102	6,008	7,774	

In 2 years alone (from 1922 through 1924) the current debt almost doubled. The total sum of current debt also increased as a consequence of the numerous conversions of prewar loans of former Austro-Hungary which Czechoslovakia assumed on the basis of peace treaties.

In 1925 for the partial consolidation of the current state debt the government concluded in the United States a 7.5% loan for 750 million korunas (Finances publiques 1928-1935, Societe des Nations, Geneve, 1936, XXVII, Tchecoslovaquie).

The continuing policy of financial oppression and the curtailment of the already minimal expenditures for social needs, under the conditions of the depression that developed, made the atmosphere extremely intense and caused general dissatisfaction in the country.

In order to conceal the true deficit in the budget of the state administration, in 1924 the gross income and expenses of state enterprises were excluded from it. A special budget was created for state enterprises.

Externally the volume of the budget for the state administration was sharply curtailed (by almost 2.5 billion korunas). It included only the pure profit or sums for covering losses of state enterprises. By keeping a separate budget for state enterprises, however, it was not possible to conceal completely the deficit in the budget for the state administration.

Thus the budgetary system of bourgeois Czechoslovakia consisted of the budget for the state administration, the budget for the state enterprises, the "investments" budget, and special funds

(road, irrigation, power, etc), whose assets were created from deductions from taxes and from state subsidies and from the local budgets.

The capitalists who were in power used in their own interests this multiplicity of the budgetary system, which helped them to disguise the true trend in the expenditure of national funds.

The budgets for 1925-1926 show a further reduction in expenses to the limits of income. This was achieved by eliminating in 1926 the "investments" budget (it was divided between the budget for the state administration and the budget for state enterprises) and the sharp reduction of appropriations for public needs. In 1926 as a result of the growth of taxes the budget for the state administration was balanced and the government for 2 years (1926-1927) refrained from floating loans. The increase in capital investments in the country and the surplus of loan capital made it possible by paying off a number of debts and making conversions to make a considerable reduction in the volume of current debt, which is itemized below (Spitaler, op. cit., page 61).

(in millions of korunas)

As of 1 Jan 1924	As of 1 Jan 1925	As of 1 Jan 1926	As of 1 Jan 1927	As of 1 Jan 1928
7,774	6,633	5,678	4,401	3,728

In 1928 the expensive American 750-million koruna loan of 1925 was paid off ahead of time. More than 3 billion korunas were expended to pay off the prewar debts of the former Austro-Hungarian Empire. The Austro-Hungarian military loans were canceled by the Czechoslovak government during the very first years of the existence of the bourgeois republic, ruining millions of small-scale holders of those loans and many enterprises and enriching the large-scale

entrepreneurs. Unlike countries where inflation completely or partially devalued the domestic state debt in Czechoslovakia as a result of the relative stability of the currency, the state debt was to a considerable extent retained and increased budgetary expenditures.

From 1926 through 1929 the volume of the budgets of the state administration is shown by the following information (Spitaler, op. cit., page 30; Finances publiques 1928-1935, XXVII -- Tchecoslovaquie, page 8).

	(in millions of korunas)			
	1926	1927	1928	1929
Cash execution				
Income	10,159	10,988	10,907	10,444
Expenditure	10,420	10,583	11,019	10,275
Difference	-261	-405	-112	-169

In the interests of the bourgeoisie the government in 1928 authorized, when goods were exported, a reverse payment of the turn-over tax paid on them. This privilege increased the already tremendous profits of the bourgeoisie. But the exploitation of the workers and their rate of taxation increased still more. As a result the tax arrears also reached a tremendous extent. In 1927 these came to 6,794,800,000 korunas, and in 1927, 5,827,500,000 korunas (Finances publiques 1928-1935, page 2).

Bourgeois Czechoslovakia reached the maximum point in its economic development in 1928-1929. The worldwide depression of 1929-1933 also seized that country and had a serious effect upon its financial system. The decline of agriculture, the sharp limitation of export opportunities, the fall in prices, and growing unemployment were its first signs.

In 1933 the volume of the Czechoslovak industrial production came to 60.2% of the volume of production in 1929. The depression manifested itself especially strongly in heavy industry. The country's production as has already been pointed out, followed the movement of foreign trade. The impossibility of selling goods in foreign markets led to the curtailment of export branches of industry. This also caused an overall reduction in the volume of industrial production.

The depression reached its greatest severity in the end of 1933. It struck the workers of Czechoslovakia in the most severe manner. The number of unemployed exceeded 920,000. The Czechoslovak bourgeoisie transferred the onus of the depression onto the masses of the people.

The coming of the depression immediately affected state finances. State enterprises (tremendous deficits of state railroads, etc) were the first to suffer. The proceeds from taxes were sharply curtailed. The increase in losses by monopolies and the bankruptcies of enterprises demanded "extraordinary" expenditures for the broad subsidizing of capitalists and landlords under the flag of the struggle against the depression and unemployment. Whereas the 1930-1931 deficits were covered by the existing cash reserves, subsequently the government used loans and treasury bonds for that purpose. The tax rates were repeatedly raised and new taxes were introduced.

The volume of the budgets of the state administration during the depression years as compared with 1929 is shown by the following (as reported) (Finance publiques 1928-1935, page 2).

(in millions of korunas)

	1929	1930	1931	1932	1933
Cash execution					
Income	10,444	9,654	9,133	8,368	7,379
Expenditures	10,275	9,928	12,260	10,258	9,588
Difference	+169	-274	-3,127	-1,890	-2,209

During the 4 years of the depression the budgetary income fell by more than 3 billion korunas whereas the expenditures were almost not curtailed and in 1931 sharply increased. The deficits increased still more. The reports on execution of the budgets show for 1934 a deficit of 1,389 million korunas and for 1935, 3,004 million korunas (the largest deficit since 1931).

The 12 billion koruna deficit and the complete disorder of the finances showed the influence of the depression upon the Czechoslovak state budget.

The information which has been cited to show the volume and movement of just the budgets of the state administrations during the depression years and the subsequent period give far from a complete idea of the total gravity of the financial exploitation of the workers.

The basis of the income on the budget of the state administration (about 90%), as has been pointed out, was made up of taxes -- direct and in particular indirect. Indirect taxation, V. I. Lenin pointed out, "falling upon consumer articles is distinguished by its very great injustice. It lies with all its gravity upon the poor people, creating a privileged position for the rich. The poorer a person is the greater the share of his income that he pays to the state in the form of indirect taxes" (V. I. Lenin, Soch., Vol 5, page 309).

Whereas the Czechoslovak direct taxes in just the budget of the state administration for 1929-1935 came to an average of about 1.5 billion korunas a year of which more than half was income tax, the system of indirect taxes during those years yielded an average of more than 5 billion korunas. Of indirect taxes the greatest proportion was made up of excise duties, including the turnover tax, income from the tobacco monopoly, and customs duties.

In addition to direct and indirect taxes the state received considerable income from all kinds of levies (stamp tax, court costs, transportation tax, etc).

The expenditures on the budget of the state administration were of an unproductive, parasitical nature and were directed toward the oppression of the workers.

The most considerable expenditures of capitalist Czechoslovakia were expenditures for armament.

Direct military expenditures alone came to the following figures -- in millions of korunas (computed on the basis of the cited collection Finances publiques 1928-1935).

1929	1931	1933	1935
2,010	1,940	1,784	1,819

As a result of the feverish rates at which fascist Germany armed herself the Czechoslovak war industry began in 1936-1937 to develop especially rapidly. Military industrialists received large government orders. Thus it became possible for the Czechoslovak financial oligarchy to get very rich and provide themselves with the maximum profits. The floating of a 3.5 billion koruna "defense loan" increases still more the rates of armament production and

increased the import of military raw material (rubber, wool, cotton, nonferrous metals, etc) at the expense of the country's currency reserves and to the detriment of other items of import.

Billions of korunas on the budget were expended to maintain the bourgeois apparatus of oppression and force. The expenditures just for the ministry of internal affairs, the ministry of justice, and the supreme court every year came to more than a billion korunas. The expenditures in connection with the state debt, which also were covered by the worker taxpayers also represented a heavy burden.

In 1929 the budget of the state administration paid up to 75% of the total expenditures in connection with the state debt; only 25% was covered by funds of state enterprises. In 1933, under depression conditions, the budget of the state administration had difficulty in paying somewhat more than 50% of the total expenditures in connection with the debt. Because of the steady growth of the latter, other sources could not compensate for that lag. At the end of 1933 the government announced a temporary moratorium on the debt other than the payment of periodic coupons.

The actual bankruptcy of the state reduced the expenditures on the debt from 2,785,500,000 korunas in 1933 to 1,697,500,000 korunas in 1934. Furthermore as a result of the rapid increase in debt the expenditures in connection with it again rose but their increase was restrained by a number of conversions and the lowering of the interest rates on the loans. The vast conversion of the domestic debt (up to 21 billion korunas) carried out in 1936 completed that policy. The paying off of the capital sum of the debt was supposed to be renewed in 1938. The expenditures of the

budget in connection with the debt came to 17.8% of the total expenditures in 1929 and 11.7% in 1935.

At the same time that military expenditures were continuing to increase all other expenditures in the Czechoslovak budgetary system (wages, pensions, education, and public health) were subjected to the most severe reduction. In November 1931 the wages and pensions paid to the workers were reduced by 4-12%. A year later in December 1932, a new reduction followed -- from 3 to 15%. The reduction of wages, pensions, etc continued subsequently. The population's standard of living fell steadily.

The government's attempt to balance the budget under these conditions was obviously unfounded and could not lead to success.

Whereas before the depression the expenditures of the Czechoslovak budgetary system were covered chiefly by taxes, in 1931 loans began to take on greater and greater importance. The importance of loans for covering budgetary deficits and for carrying out a vast program of "public works" is shown by the following information.

	(in billions of korunas)						(as of 30 September)
	1929	1930	1931	1932	1933	1936	1937
Long-term debt (not counting the government's debt to the National Bank for banknotes in circulation)*	20,335	20,430	21,729	21,648	23,314	27,968	28,008
Current debt	3,267	3,130	3,527	4,086	4,440	7,462	8,598
Total domestic debt	23,602	23,560	25,256	25,734	27,754	35,430	36,606
Foreign debt	5,307	6,342	6,277	7,017	6,988	7,000	8,149
Total	28,909	29,902	31,533	32,751	34,732	42,430	44,755

(*The government's debt to the National Bank for banknotes in circulation came to 3,761,000,000 korunas in 1929; 3,452,500,000 in 1930; 3,121,400,000 in 1931; 2,686,500,000 in 1932; 2,593,500,000 in 1933; etc.)

In addition the state debt to the National Bank according to the balance sheet as of 7 August 1937 came to 2,014,000,000 korunas. Almost the entire domestic long term debt (41 billion) was in 1936 converted to a unified loan. The percentage rate for the unified loan was reduced. This yielded a considerable economy.

The increase in the long term loan was caused by the floating of an "investment loan" in 1931 for 1,300,000,000 korunas, a "works loan" in 1933 for 2,010,000,000 korunas, a "defense loan" in 1936 for 360 million korunas, and the conversion of the current debt.

The annual issuance of short term interest-bearing treasury bonds to cover the budgetary deficits increased the sum of the current debt from 3,276,000,000 korunas in 1929 to 8,598,000,000 korunas in 1937, that is, by 263%. The tremendous growth of state debt worsened state finances and lowered the workers' standard of living. The state indebtedness exceeded the country's entire national income.

With the occupation of Czechoslovakia by the German fascist usurpers all the country's resources including financial were used for the preparation of a new war. The Czechoslovak industry was entirely included in Germany's industrial system. With the aim of mobilizing manpower the Hitlerites closed a large number of small-scale enterprises. Industrial production was subjected to narrow specialization. All forces were directed toward the manufacture of war output.

Agriculture fell into a decline. There were sharp reductions in the harvest yield of grain crops and sugar beets. The number of head of large-horned cattle, hogs, and poultry decreased.

According to computations of the Ministry of Internal Affairs of the Czechoslovak Republic the total material losses inflicted on the country by the Hitlerite occupying forces came to about 1,371 billion korunas (Rude pravo, 28 April 1949).

The financial system was broken up by the fascists in conformity with the dismemberment of Czechoslovakia. Instead of the former budget of the state administration, budgets were drawn up for the so-called Protektorat (Czechia and Moravia) and the Slovak state. Essential changes were also made in the tax system which to a considerable extent was re-organized on the model of the tax system of Hitlerite Germany.

The usurpers intensively utilized in their own interests the country's financial levers that fell into their hands.

The tremendous sums expended for war orders for the Hitlerite army and the large expenditures to maintain the occupying forces and their apparatus with the critical shortage of budgetary resources, were covered in the final analysis by issuing paper money. This, on the one hand, led to a sharp swelling in the expenditure portion of the budgets and on the other hand, to a sharp decrease in the income portion and to inflation.

World War II made the Czechoslovak financial position still worse and caused a chronic ever-growing deficit in the state budget. This in its turn intensified inflation and the resultant disorder of the entire national economy, and led to the further

impoverishment of the working masses and to the extreme aggravation of the class contradictions in the country.

2. Economic Basis of the State Budget. Its Role in the Allocation and Re-allocation of the National Income in People's Democratic Czechoslovakia

The state budget being the principal financial plan in the people's democratic Czechoslovak Republic, occupies a central place in its financial system. By means of the budget the state mobilizes the country's monetary resources and directs them toward the financing of the socialist industry and the socialist re-organization of agriculture, the social and cultural measures and the country's defense and expenditures to manage the state.

The state budget is founded on the indexes of the national economy plan and has strictly directive importance. It is made up on a yearly basis and is approved by the highest organ of state authority -- the National Assembly of the Republic. The approved budget takes on the force of law.

The National Assembly establishes the volume of all-state centralized fund of monetary resources needed for the year by the national democratic state for carrying out its functions in the field of economic organizing and cultural educational work, the protection of the national property and military defense. At the same time the state budget includes fixed assignments for mobilizing funds from all the sources of state income and provides for their allocation in conformity with the national economic plan among the individual branches of the country's economy, culture, administration, and defense.

The state budget reflects the process of the socialist transformation of people's democratic Czechoslovakia, whose economic basis is made up of the socialist ownership of the tools and means of production, which is predominant in the system of the country's economy. Herein lies the essence of the socialist nature of the budget, its planned nature, the peculiarities of the sources of income, the direction of expenditures, and the entire organization of the budgetary system.

In its income portion the state budget of the Czechoslovak Republic is based chiefly upon the proceeds from the socialist economy. The proportion of this income in 1955 was 85% and in 1956 reached 85.5% of the total volume of the budget (Rude pravo, 10 February 1956). The budget is the primary source of financing very important measurements for the development of the national economy and the social and cultural construction in Czechoslovakia and completely finances its state administration and defense. The state reserves in the national economy are also formed from these funds.

Expanded socialist production, the increase of the public wealth, the steady rise in the workers' material and cultural standard of living, the strengthening of the country's independence, and the increasing of its defense capacity are provided with the necessary financial resources principally through the state budget.

A source of financial resources is the national income which is created in the sphere of material production and which, as is well known, represents part of the aggregate social product.

The national income of a people's democracy in its socio-economic nature differs in principle from the national income of a

capitalist state. Under capitalism the production, distribution, and utilization of the national income take place in an uncontrolled manner and are entirely subordinate to the principle of guaranteeing the monopolistic capitalist a profit; the share of the workers in the national income is reduced from year to year.

In a people's democratic state where the national income is created by workers who are free from exploitation, it belongs to the workers themselves and is distributed in their interests. The consumer fund, which constitutes about three-fourths of the national income is expended to satisfy the personal material and cultural needs of the people. The rest of the national income goes towards targets of accumulation, that is, to expand socialist reproduction and other all-state and public needs. Thus the national income in Czechoslovakia has not become true national income.

The funds accumulated by the state take on monetary form and create the country's financial resources, the major share of which goes to the state budget. Through the budget, people's democratic Czechoslovakia allocates and re-allocates the national income among the different forms of the national economy, individual groups of the population, branches and enterprises of the state economy, the production and non-production sphere, and among the regions of the country.

The correct organization of the process of allocating and re-allocating a portion of the national income in monetary form through the state budget is of primary importance to the national economy.

An extremely important role is played by the budget in

allocating and re-allocating the national income in the interests of constructing socialism. By taxing the capitalist elements in urban and rural areas at high rates and by offering tax privileges to the workers and rendering broad assistance to poor and medium peasants, the Communist Party and government of Czechoslovak use the budget to limit and force private capital out of all the branches of the country's economy.

In the process of this re-allocation of the national income a considerable portion of the income of rich peasants and other exploiter elements is taken out of circulation and this provides the budget of the people's democratic state with additional sources of income. Simultaneously through the budget, definite funds are appropriated for the issuing of long-term credit to individual peasant farms to purchase livestock, seeds, and fertilizers, for housing, etc. These appropriations serve to strengthen still further the union between the working class and the working peasantry, a union which is the political basis of the people's democratic order.

The inter-branch re-allocation of the national income through the budget contributes to the accelerated development of the entire national economy of the Czechoslovak Republic, and primarily to the branches of first priority importance for the creation of a material technical basis of socialism in the country.

The decisive link of socialist construction during the transition period is industrialization. The necessity of the latter evolves from the demands of the objective laws of socialism. Industrialization together with the formation of agricultural cooperatives guarantees the complete victory of the socialist sector.

As a result of the socialist industrialization, production relations are carried out in conformity with the nature of the productive forces which have wide scope for development.

Socialist industry guarantees the rapid growth and improvement of production on the basis of the preferential development of heavy industry which is necessary for the steady raising of the workers' standard of living and welfare.

An important role is played by the Czechoslovak state budget in carrying out plans for the development of the national economy. It mobilizes all the sources, all the resources of accumulations in the national economy, and directs them toward the financing of a tremendous program of capital investments and the satisfaction of the workers' social and cultural needs.

In addition to the inter-branch re-allocation of the national income, the territorial re-allocation of it by areas and regions is also of great importance since this makes it possible for the state most efficiently to place its productive forces and to successfully implement the Leninist national policy.

With the aid of the territorial re-allocation of the financial resources, the Communist Party and government of Czechoslovakia has achieved the transformation of consuming regions into producing ones. As is well known under capitalism, Slovakia was the most backward part of the country. At the present time it has a widely developed industry which is provided with advanced equipment. Its industrial production is 368% greater than in 1937, and in heavy industry, 600%. Construction is developing in a planned manner in Slovakia. For 1955, 26.5% of all the republic's

capital investments were allocated to it and for 1956, 27% was planned (Rude pravo, 10 February 1956).

The Slovak rural areas have taken the path of socialism. At the present time there are 1,420 uniform agricultural co-operatives there cultivating 25.7% of all the land of agricultural importance.

The efficient placement of the productive forces is one of the very important factors in the rapid growth of Czechoslovak economic might and the system rise in the standard of living of the peoples inhabiting the country.

The correct re-allocation of the national income and the use of financial resources have helped the unselfishly working Czechs and Slovaks to complete successfully the First Five-Year Plan and in all branches of the national economy to exceed considerably the prewar level of production. In these achievements no small role was played by the financial system and its basic link, the state budget.

The Czechoslovak financial system and the state budget must solve still more important tasks in fulfilling the Second Five-Year Plan. During that period capital investments in the amount of 152,600,000,000 korunas have been envisaged. They will exceed by more than 60% the capital investments in the preceding five-year plan.

With the aid of the budget the people's democratic state mutually ties together the financial plans of the branches of the national economy, the plans of financing social and cultural measures, the state administration and defense, the balance sheet of the population's income and expenditures, the financial plans

of social insurance, state insurance, the bank of long-term credits (the Investments Bank), and the workers' savings banks.

The state budget and all the financial plans named together with the State Bank's credit and cash plan, constitute the financial balance sheet of the national economy. In the system of these plans the leading place belongs to the budget.

In the Czechoslovak state budget as in the Soviet state budget the threads of the entire economic and cultural construction come together.

Budgetary planning is possible only under the conditions of the socialist economy. Certain bourgeois economists attempt to include the budget of the capitalist state to a planned category viewing this budget as a "plan for running the state economy." They strive to prove the possibility of the planned running of the capitalist economy and to ascribe to the bourgeois state the decisive role in the country's economic life. Going along this path bourgeois scientists attempt to depict the bourgeois state in the form of some superclass organization existing independent of the capitalist method of production and utilizing the state budget allegedly to satisfy the "collective needs of society."

All this of course did not withstand criticism. The bourgeois state completely placed at the service of the capitalist monopolies, is powerless to overcome the anarchy of production, depression, unemployment, and other evils of capitalism. It cannot to any degree carry out national economic planning, including financial.

Under socialism on the basis of planning the financial inter-relations of the enterprises and branches of the economy with the budget, a strict financial system of economic activity is established. This system stimulates the struggle to lower production costs, to strengthen financial discipline, and to force the rates of socialist accumulation.

The Czechoslovak state budget is an important tool for using the koruna to control the process of fulfilling the national economy plan. The mobilization of the funds of economic organizations into the budget is accompanied by the systematic control of the lowering of production costs and the fulfillment of the plans for the production and sale of output. With the financing of individual measures control is also carried out over the well-directed and economic expenditure of funds.

Thus the Czechoslovak state budget is closely tied up with the national economy plan not only in the process of preparing it but also in the process of carrying it out. It relies on a rapidly growing national economy that does not know depressions. The state budget of people's democratic Czechoslovakia is run not only without a deficit but every year is planned and executed with a considerable increase of income over expenditures -- at the same time that the budgets of capitalist countries as a rule are characterized by chronic deficits.

3. The State Budget of People's Democratic Czechoslovakia at the First Stage of its Development

At the first stage of the people's democratic revolution (1945-1948), in the difficult, rapidly changing economic situation,

the Czechoslovak state was unable to create a solid budget and on its basis to restore and adjust the country's economy that had been destroyed by the Hitlerites. During 1945 the state expenditures were made on the basis of monthly, constantly corrected budgets which provided for only the expenditures for state administration. During 8 months of 1945 (May-December) the total expenditures in just the Czech land were 20,386,000,000 korunas, and income, 13,320,500,000 korunas. A deficit in the monthly estimates was formed in the amount of 4,441,300,000 korunas. In Slovakia the expenditures on the monthly estimates during the second half of 1945 (June-December) came to 4,441,300,000 korunas, and the income, 2,875,300,000 korunas -- deficit 1,566,000,000 korunas (Statni hospadereni za valky a po revoluci, No 3, 1946, Prague, page 232). The deficit of the state budget for 1945 was covered by loans in credit institutions.

In 1946 the first postwar state budget was drawn up. It consisted of 2 parts: the ordinary budget and the extraordinary. The ordinary budget provided for the income and expenditures of the state administration, that is, state budgetary institutions, and the extraordinary budget, income and expenditures of state enterprises: railroads, post office, telegraph office, health resorts, tobacco enterprises, etc.

The extraordinary budget which was drawn up by the Ministry of Finance still preserved to a large extent the features of the bourgeois budget. In order to reduce the deficit in the budget of the state administration the income and expenditures of state enterprises were excluded from the extraordinary budget. Thus the attention of the masses of the people was drawn away from the results of administering the government.

The 1946 budget was completely a budget of the state apparatus and did not have any relation to national enterprises. In the income portion of the budget, proceeds of 37.8 billion korunas were planned for and in the expenditure portion, 64.0 billion korunas. The deficit was 26.2 billion korunas: 7.5 billion korunas on the ordinary budget and 18.7 billion korunas on the extraordinary budget (ibid, page 259).

After the May 1946 elections the government headed by the Communists was confronted by an urgent task -- the intensification of the struggle to rejuvenate finances and to overcome the deficit in the state budget. The program of the new government stated: "The budgetary policy must be aimed at lowering the deficit in social self-administration. The organs of self-administration are obliged to observe the maximum economy. On the other hand, it is necessary to achieve an increase in the national income, an increase in taxation discipline, and in tax income" (Stroitel'naya programma pravitel'stva K. Gotval'da [Construction Program of the K. Gottwald Government], 1946, Prague, page 31).

Despite the violent resistance of the forces of reaction, the government's program was successfully implemented. On the initiative of and under the leadership of the Communist Party there was a widespread movement to strengthen labor discipline, to increase labor productivity, and to accelerate the rates of restoring the national economy.

All these factors had a favorable effect upon the work of state enterprises: During 1946 they brought the state 4.7 billion korunas more income than had been expected. Tax proceeds increased and economy was achieved in administrative expenditures.

Thus by overfulfilling the income portion of the budget and by curtailing expenditures the budget came to 10.6 billion korunas instead of 26.2 billion korunas (as planned). It was covered by a loan from credit institutions and the central national hospital bank.

The second postwar state budget for 1947 was no longer divided into ordinary and extraordinary; it was a unified budget and showed the first signs of consolidation of economic and state administrative expenditures. The economic expenditures included capital investments for the construction of schools, bridges, hospitals, roads, etc. The 1947 budget also included appropriations to cover the deficit of self governments of provinces, districts, and communities.

Proceeds to the budget were planned in the amount of 48.4 billion korunas and expenditures 76.3 billion korunas with a deficit of 27.9 billion korunas. The further restoration and development of the national economy, the strengthening of labor discipline, and the increasing of labor productivity contributed to a situation in which in the actual execution of the budget the deficit came to just 6.3 billion korunas. And this deficit was covered by credit-institution loans.

The 1948 state budget, the execution of which pertains to the second stage of the regime of the people's democracy, was chiefly a budget for state administrative expenditures. It touched upon the sphere of economic activity only where mention was made of the taxing of profits of national enterprises in the form of income tax deposited to the budget and in the form of supplementing the Fund of the Nationalized Economy.

National enterprises were financed not from state-budget funds but through the Nationalized Economy Fund. They received production and investment loans at credit institutions. The profit which at that time was still given by the enterprises went onto a special account in the Nationalized Economy Fund. The funds accumulated in the Fund were intended for capital investment of the enterprises and for compensating for the value of the nationalized property. The assets of the Fund were insufficient to finance the capital investments of the national enterprises. Therefore appropriations to the fund were planned for in the state budget.

The state budget did not include budgets of local organs of authority. For balancing them the state budget every year planned for sums of subsidies which, however, only partially covered the deficits of local budgets. The local national committees covered the majority of their budgetary deficits by loans obtained from credit institutions.

Thus the sphere of operation of the state budget at the first stage of the development of people's democratic Czechoslovakia was rather limited. The budget financed only capital construction carried out by organs of state administration and by state enterprises (they constituted only a small part of the enterprises belonging to the state). As regards national enterprises most expenditures for expanded reproduction were made by them at the expense of their own funds or credit.

For 1948 the budgetary income was planned in the amount of 56.9 billion korunas and expenditures, 67.0 billion korunas. A deficit of 10.1 korunas was anticipated in the items: administration -- 6.5 billion korunas and state enterprises -- 3.5 billion korunas (chiefly for railroads, which were financed from the budget), etc.

Despite the serious consequences of the 1947 drought, which inflicted losses of more than 15 billion korunas upon the national economy, the state budget, thanks to the efforts of the working class and the working peasantry of Czechoslovakia and to the fraternal assistance of the Soviet Union, was run with a deficit of 4.6 billion korunas (J. Dolansky, Vyklad k rozpoctu na rok 1949, No 6, page 192).

The budgets of the 3 postwar years (1946, 1947, 1948) are characterized by a rapid growth of volume, especially income. But the actual execution of the budgets during these 3 years introduced major corrections in the budgetary proposals.

Budgetary appropriations (primarily for capital investments), for various reasons, were not used completely, and consequently there was a reduction in the total expenditures. On the other hand, the overall economic revitalization had a favorable influence upon income, which for the most part exceeded that planned. As a result the budgets were executed with a deficit of 21.5 billion korunas instead of the expected 64.2 billion korunas.

With the change in the social order the nature and direction of budgetary expenditures also changed. Expenditures for capital investments and social and cultural measures became major items of budgetary expenditure. They took on the greatest proportion in the overall state expenditures.

PROPORTION OF BUDGETARY EXPENDITURES BY ITEMS*

(in percentages)

	1946	1947	1948
Capital investments	39.2	24.8	20.2
Social and cultural measures	23.6	27.6	28.7
Defense	9.9	12.9	10.8

	1946	1947	1948
Administrative expenditures	14.0	14.9	17.6
State-loan expenditures	5.8	3.7	4.0
Other	7.5	16.1	18.7

*Statni hosporeni za valky a po revoluci, No 3, 1946, Prague, pages 48, 57; J. Dolansky, Vyklad k rozpoctu na rok 1947, 1948.

Budgetary funds directed toward capital investments contributed to the strengthening and expansion of the socialist way of life in the national economy of Czechoslovakia. With the aid of the state budget the working class in union with the working peasantry has created the economic prerequisites for the conversion of a people's democratic revolution into a socialist one.

The large budgetary appropriations for capital investments and for social and cultural and other measures have made it possible to fulfill successfully the assignments of the 2-year plan for the restoration and development of the national economy. To finance works to realize the plan the 1947 budget appropriated 23.9 billion korunas and the 1948 budget, 28.5 billion korunas. These appropriations were set aside in a special section in the approved budgets.

As a result of fulfilling the 2-year plan industrial production by the end of 1948 surpassed the prewar level by 10%.

Large sums of budgetary appropriations were directed to agriculture. In 1946 these appropriations were 3 times greater than in bourgeois Czechoslovakia in 1937.

A special "General Fund for Price Equalization" was created under the Ministry of Finance; this fund engaged in lowering and stabilizing the prices of mass consumer goods. Effective April 1947

the budget provided for the lowering of retail prices of meat, milk, eggs, oleomargarine, footwear, black coal, etc.

This fund contributed to raising the state purchase prices of farm produce by means of paying increases to the established state purchase prices and the lowering of prices of farm machinery and stock.

As a result of the 1947 drought the government at the insistence of the Communist Party, adopted a decree concerning the rendering of aid to peasants who had suffered from the drought and 6.5 billion korunas were appropriated for this purpose through the budget.

Budgetary expenditures for social and cultural measures increased. Twice as many funds were expended on national education as had been expended in bourgeois Czechoslovakia and 3.5 times more for public health.

Expenditures to maintain the state administrative apparatus still remained rather high. This was explained first by the development of the economy and the complexity of the tasks to administer it and secondly the existence of excess administrative institutions and large staffs in them.

At the same time that expenditures for the national economy and for social and cultural measures were increasing considerably, the expenditures for military purposes and those connected with the state debt decreased sharply. The tremendous sums of aid granted to capitalist monopolies disappeared from the state budget. From a weapon for oppressing the workers and enriching the monopolists it became a very important means in the attack upon capitalist elements and the reorganization of the society on a socialist basis.

In order to finance the urgent measures the people's democratic state had to adjust the regular entry of funds into the budget which under those conditions was very difficult to do. The principal source of state-budget income in 1945-1948 was still proceeds from taxes. But the tax policy was by that time directed against capitalist elements. Their income tax increased and the taxes of the workers in urban and rural areas decreased.

The proportion of individual groups of income of a tax nature in the overall income of the state budget is characterized by the following information (D. Butakov, Gosudarstvennyy byudzheth Chekhoslovatskoy Respubliki na sluzhbe stroitel'stva sotsializma [The State Budget of the Czechoslovak Republic at the Service of the Construction of Socialism], a dissertation, pages 71-72).

(in percentages)

	1937	1946	1947	1948
Total budgetary income	100	100	100	100
including:				
direct taxes	18.2	32.0	29.2	28.0
excise duties	20.3	9.6	9.0	7.5
turnover tax	11.5	12.5	17.5	18.1
customs duties	8.4	0.4	1.2	0.8

In the budgetary income there was a considerable increase in the share of direct taxes and a reduction in the share of indirect ones particularly excise duties.

An important source of budgetary income in the period under consideration was proceeds from national enterprises. They increased every year and from 1945 through 1948 more than quadrupled. This

increase was achieved by increasing the profitability of national enterprises.

Consequently at the first stage of the regime of the people's democracy both the state budget and the tax system of Czechoslovakia still retained their old form which was left behind by the bourgeois republic. But in the severe class struggle this old form began to be supplemented more and more with new content. The state-budget income and expenditures were placed completely at the service of the workers. The mobilized budgetary funds were directed toward developing the national economy and toward social and cultural measures.

4. The State Budget of People's Democratic Czechoslovakia at the Second Stage of its Development

After the victory of the workers over the forces of reaction in February 1948 the expansion and strengthening of the socialist sector began. Major tasks confronted the state budget, especially in connection with fulfilling the five-year plan for the development of the national economy in 1949-1953. It was necessary to finance regularly all the measures set down by plan.

The state budget for 1949, that is, the first year of the five-year plan, was run with an increase of income over expenditures. It differed from the budgets of preceding years not only by the absence of a deficit, but also in the fact that it was drawn up in a new way.

The state enterprises previously financed by the budget -- the Czechoslovak State Railroads; Airlines; and State Forests and Holdings -- were on 1 January 1949 transferred to the status of national enterprises. Somewhat later, on 1 July, the post office,

which formerly had been a state enterprise became a national enterprise.

National enterprises were financed not from the stage budget but from the Nationalized Economy Fund which was an independent financial organ and was not subordinate to the Ministry of Finance. National enterprises transferred to the Fund a portion of the profit remaining after the payment of taxes to the budget and after amortization deductions. But from the Fund they received subsidies for capital investments and for covering their planned losses. With respect to the financing of capital investments the national enterprises were linked with the budget only through the Nationalized Economy Fund. The budgetary funds directed toward financing enterprises came to the Fund, and it distributed them. Unlike the practice in past years the 1949 state budget included all income and expenditures of area and regional national committees. But as regards the budgets of local national committees they were not included in the state budget and received only subventions.

For the first time the 1950 state budget included 2 new sections: the Budget of National (Social) Insurance, and the Subsidy to the Nationalized Economy Funds. This considerably expanded the volume of the budget.

Prior to 1950 the Budget of National Insurance existed independently. Its income consisted of payments made by the workers and of sums appropriated from the state budget in the form of a special subsidy. The inclusion of social insurance in the state budget meant that the state took completely upon itself the concern for the workers in the event of their illness, old age, or loss of working capacity.

In 1950 the state budget began to include the budgets of local national committees which formerly had been separated from it and received only subventions. This strengthened the material base of the local budgets and considerably facilitated balancing them.

The 1951 state budget was drawn upon according to the model of the 1950 budget. Its functions were expanded and its effect upon individual branches of the economy was also intensified. But the link between the state budget and the production sphere was still a weak one. The finance organs that carried out budgetary planning and execution actually were unable in any way to influence the work of the national enterprises.

In addition to the budget the Nationalized Economy Fund also developed, becoming the financial center of all the national enterprises, that is, of the entire production sphere. Thus in 1951, 2 financial centers functioned in the country: the state budget which financed the maintenance of the state apparatus, social and cultural measures, and the strengthening of the country's defense, and the Nationalized Economy Fund which financed the production sphere.

The existence of 2 financial centers caused definite difficulties and led to a violation of the principle of economy. The February 1951 Plenum of the Central Committee of the Communist Party of Czechoslovakia noted major shortcomings in the expenditure of state funds, and the September 1951 Plenum pointed out the necessity of reorganizing the administration of industry and of systematizing its financing, and proposed specific measures to improve this matter.

The reorganization of the planning of enterprises was carried out on the basis of the law of 19 December 1951 "The Organization of Financing National and Municipal Enterprises." The law established

a new procedure for financing national and municipal enterprises which was based on the principle of material interest in plan fulfillment. This was achieved by the fact that the granting of funds to enterprises was made directly dependent upon the fulfillment of the plan for accumulation. The implementation of the law of 19 December 1951 increased still more the role of the state budget in the national economy.

The Nationalized Economy Fund no longer corresponded to the needs of the planned running of the economy and at the end of 1951 it was eliminated. In 1952 all the national enterprises began to construct their work on the basis of direct interrelations with the state budget, receiving from it directly the funds for their production activity and transferring to the budget a portion of the profits. The establishment of a close link between the national enterprises and the state budget, the improvement of national economic and financial planning, and the intensification of bank control considerably strengthened financial discipline and prepared the conditions for converting the budget into the state's principal finance plan. "The state budget," the law of 19 December 1951 states, "is the state's principal finance plan, in which are concentrated all the principal financial funds with the aid of which the financing of the national economy is carried out and in which the direct interrelations between the state and all branches of the economy are established."

The budget has become one of the most important means of the planned allocation and reallocation by the state of the bulk of the national income. Beginning in 1952 the state budgets are characterized by an expansion of links with the economy, and by an intensification of the influence upon all branches of the country's

economic and cultural life. These budgets were constructed on the principle of object classification, that is, they indicated all the sources of income and the direction of expenditures.

The development of the national economy and the growth of the socialist way of life in the Czechoslovak Republic placed under the state budget a solid, constantly expanding income base in the form of accumulations of socialist enterprises.

At the present time the proceeds of the Czechoslovak state budget are made up of: (1) payments of the socialist economy; (2) tax payments of workers; and (3) taxes paid by capitalist elements.

The basis of the income of the state budget is payments from the socialist economy. Such payments in 1948 constituted 68% of the total state budget; in 1954, 80.6%; and in 1955, 85%. The taxes paid by the population in 1950 came to 16% of the total budgetary income and in 1955, 12%.

The share of the payments of the private-capital sector has been decreasing every year and occupies an insignificant place in the budgetary income.

The chief source of proceeds to the state budget in 1949-1952 was the general tax introduced on 1 January 1949. The income from this tax came to 48% of the total budgetary income in 1949; 57% in 1950, and 67.7% in 1951. The general tax is levied upon state, cooperative, and private-capital enterprises.

Socialist enterprises have transferred their monetary accumulations to the budget along 2 channels: in the form of the general tax and a special tax on profit.

Beginning in January 1953 the principal source of budgetary income was the turnover tax which had been introduced to replace the general tax; the tax on noncommodity operations; and deductions from profits of socialist enterprises.

In 1955 of the total amount of 86.2 billion korunas in the state-budget income the share of the turnover tax and the tax on noncommodity operations came to 44.9 billion korunas, that is, 52% of the income, and deductions from profits, 13.1 billion korunas, or 15% of total income.

The successes of the socialist construction of the Czechoslovak Republic find their reflection in the state budget and in the increase in its volume. This increase in the volume of the budget makes it possible to expend still more funds for capital investments.

The increase on budgetary expenditures for capital investments by years in comparison figures, is shown by the following table -- 1949 is taken as 100 (Rude pravo, 10 March 1954).

Year	Growth in percentage
1949	100
1950	140
1951	181
1952	204
1953	196
1954	231

The funds from the state budget of people's democratic Czechoslovakia are directed toward financing the national economy, toward social and cultural measures, and toward the country's administration and defense (see the following table).

Expenditure Item		EXPENDITURES OF STATE BUDGET BY YEARS*							
Total expenditures		1949	1950	1951	1952	1953	1954	1955	1956
	in billions of korunas	89.3	131.6	166.2	323.5	430.9	87.5	86.1	89.9
	in percentage	100	100	100	100	100	100	100	100
Including:									
Financing of national economy	in billions of korunas	40.0	41.2	86.6	217.5	254.5	48.5	43.9	48.1
	in percentage	44.8	32.1	52.1	67.2	59.1	55.4	51.0	53.5
Expenditures for social and cultural measures	in billions of korunas	25.9	50.3	47.7	58.8	111.1	27.4	28.3	28.8
	in percentage	29.0	38.2	28.7	18.2	25.8	31.2	32.9	32.0
Defense expenditures	in billions of korunas	8.4	12.0	15.6	22.4	41.8	7.8	10.4	9.6
	in percentage	9.4	9.1	9.4	6.9	9.7	8.9	12.1	10.7
Administrative expenditures	in billions of korunas	11.8	16.8	16.3	20.1	18.8	3.8	3.5	3.4
	in percentage	11.3	12.7	9.8	6.3	4.3	4.3	4.0	3.8
Other expenditures	in billions of korunas	3.2	11.3	-	4.7	4.7	-	-	-
	in percentage	3.5	7.9	-	1.4	1.1	-	-	-

*According to laws concerning state budgets

Of a total amount of 86.1 billion korunas constituting budgetary expenditures for 1955, 51% or more than half went to develop the national economy; 32.9% to social and cultural measures; 12.1% to the country's defense; and 4% to administration.

In conformity with the task of the further development of industrial production, for 1955 a large sum -- 20.2 billion korunas -- was allocated from the funds of the budget and the ministries for the development of industry. The overwhelming portion of this sum was intended for capital construction. A sum of 14.7 billion korunas was directed toward the needs of heavy industry.

Large funds are allocated for geological prospecting operations and the use of new equipment in industry. In the 1955 budget the total expenditures for these purposes come to 2.3 billion korunas, that is, 38.5% more than in 1954.

To finance machine building the budget and the Ministry of Machine Building allocated 3.4 billion korunas.

In the state budget a considerable percentage is occupied by expenditures directed toward the further growth of agriculture. The Tenth Congress of the Communist Party of Czechoslovakia set down a program for the substantial increase of agricultural production and the providing for the maximum development of the productive forces in agriculture. In the 1955 state budget 7.9 billion korunas were allocated for the development of agriculture; this amount of 20.4% more than 1954 and twice as much as in 1952. In addition the government renders a large amount of aid to unified agricultural cooperatives, granting credits to them for capital construction. In agriculture the funds of the state budget are directed primarily to the development of vegetable and animal husbandry, the mechanization of agricultural

operations, and to machine-tractor stations and state farms.

Large-scale budgetary appropriations and the large amount of aid on the part of industry and the working class are used to accelerate the rate of agricultural production and to eliminate its lag behind the rapid development of industry, and thus to achieve a further rise in the workers' material and cultural standard of living.

Unlike the budget of bourgeois Czechoslovakia, the budget of the people's democratic Czechoslovak Republic gives great importance to expenditures for financing social and cultural measures. It is characteristic that these expenditures are increasing every year: in 1949 they came to 20% of the total budget expenditures; in 1954, 31.2%; and in 1955, 28.3%, or 32.9% of the total budgetary expenditures.

The Communist Party and government of Czechoslovakia manifest tremendous concern for the growth of the workers' material welfare and their cultural standard of living. This concern manifests itself in the growth of budgetary appropriations for education and public health, the organization of nurseries and kindergartens, the increase of grants to parents of large families, to disabled servicemen and workers, etc.

The 1955 budgetary expenditures per capita were 105% more than the 1950 expenditures in the field of culture; 70% more in the field of public health; and 90% more in the field of education. The number of kindergartens in 1953 was 140.8% more than in 1936. The number of children served by them during that time more than doubled: from 104,600 to 219,300. In 1937 health insurance and pension provisions covered 3,275,000 persons, and at the present

time 5,198,000 persons. In 1937 grants amounting to 4.5 billion korunas were issued in social insurance payments; 1948, 5.1 billion korunas; and in 1955, 11.9 billion korunas, or 2.6 times more. Many sanatoriums and rest homes were opened up for workers; the number of workers spending their leave there in 1948 was 131,000 and in 1953, 297,000.

All the workers are given free medical aid. In 1937 one doctor served an average of 1,218 persons, and in 1953, 760. The mortality rate fell considerably. Of each 1,000 children born in 1937, 117 died before the age of one year, but in 1953 the number had fallen to 45.

The number of intellectuals, especially engineering intellectuals, is increasing as the appropriations for education increase.

In trade schools the number of students has increased by two-thirds over the number in 1936. In 1936, 24,500 students were studying in higher educational institutions, of whom 27% were in higher technical educational institutions. In 1953 the number of students reached 46,800 with 49.9% of them studying in higher technical educational institutions.

In 1955, 10.4 billion korunas, or 12.1% of the total expenditures were planned in the state budget for the defense and security of the republic. This sum is many times less than the sums appropriated by the budgets of capitalist states for armament.

In Czechoslovakia an important role is played by the budgets of local national committees, which direct economic and cultural construction in the outlying districts, and guarantee the participation of millions of workers in the administration of the state.

The volume of these budgets has been increasing from year to year. In 1950 the expenditures of the budgets of national committees constituted 9.3 billion korunas and in 1955 they were planned in the amount of 15.5 billion korunas. The budgets guarantee, in particular, the development of the local economy and the carrying out of social and cultural measures. In 1955 they directed 14% of their total expenditures toward the development of the economy and 75% to social and cultural measures. The share of the budgets of local national committees comes to 86% of the total state expenditures for public health and 81% of the expenditures for education.

At the conference of the Communist Party of Czechoslovakia in June 1956, special attention was paid to the activation and expansion of the activity of the national committees. The Central Committee of the party sharply criticized the excessive centralization in the administration of the country which had developed in the struggle to strengthen the authority of the working class and which had grown up in the atmosphere of the cult of personality. It noted that, as a result of the excessive centralization, the number of matters on which the national committees make final decisions are too limited. It was suggested that the authority of those organs be increased by expanding their rights and the sphere of their activity.

The steady rise in the volume of the Czechoslovak state budget, which reflects the successes of socialist construction, characterizes the 1956 budget adopted by the National Assembly. Its income is planned in the amount of 90,304,000,000 korunas, and expenditures in the amount of 89,887,000,000 korunas, that is, with an increase of 417 million korunas of income over expenditures.

The increase in income will be guaranteed by the expansion of production, the further growth of labor productivity, and the

intensification of a system of economy. A decisive source of income will be the proceeds from enterprises of the socialist way of life, which will come to 77.2 billion korunas (85.5% of total income).

Through the turnover tax and the tax on noncommodity operations the budget will receive 45.8 billion korunas (50.8% of the total income), and from deductions from the profits of state enterprises, 14.4 billion korunas (15.9% of total income). This is 8.7% more than in 1955.

The taxes and duties levied on the population will come to 11.9%, or less than last year.

The increase in the volume of the budget and the increase of receipts into it will make it possible for the state to give continuous financing to the rapid development of the national economy.

The budgetary expenditures are allocated as follows: development of the national economy, 53.5%; culture, public health, and social security, 32%; defense, 10.7%; and administrative expenditures, 3.8%. This trend in budgetary appropriations attests to the creative and peaceful nature of the state budget of the Czechoslovak Republic.

A sum of 48.1 billion korunas or 18% more than in 1955 is being appropriated by the budget for the further development of the national economy.

At the same time 23.4 billion korunas (19.3% more than last year) has been planned for increasing industrial budget at the expense of the budget and out of private funds. The greatest portion of these appropriations -- 16.2 billion korunas (17.4% more than in 1955) -- is directed to heavy industry.

The coal and power industries will receive 6.8 billion korunas in 1956 (25% more than in 1955). Appropriations for the development of new equipment and for geological prospecting operations have increased by the same percentage.

In agriculture 8.8 billion korunas (17.9% more than last year, and 62.5% more than in 1953) will be invested. It must be taken into consideration that by increasing agricultural production by almost 11.5% in 1955 Czechoslovakia achieved the prewar level in agriculture.

The expenditures for the administrative apparatus are gradually decreasing in the state budget. In 1952 they came to 6.2%; in 1955, 4%; and in 1956, 3.8%. But the expenditures for education, culture, public health, and social security are continuing to grow each year.

EXPENDITURES OF STATE BUDGET PER CAPITA*

	1950 in korunas	1956	Percentage of Increase
Education	179	344	92.1
Public health	225	400	77.1
Cultural needs	49	109	121.5
Social security	1,563	2,351	50.4

*Rude pravo, 10 February 1956.

Not a single capitalist country in the world has achieved such results. In people's democratic Czechoslovakia a new, national culture is developing, cadres of working intellectuals are growing, the system of medical institutions is expanding, and the population's standard of living is steadily rising.

In an environment of the creative labor the Communist Party and government of Czechoslovakia are not forgetting to strengthen the country's defense capacity. But thanks to the untiring efforts of the Soviet Union and all the peace-loving nations a certain lessening of the tension in international relations has come about. As a result Czechoslovakia in 1955 reduced its armed forces by 34,000 and in July 1956 by an additional 10,00, thus lowering the expenditures for defense. In 1956 such expenditures will come to 9,605,000,000 korunas as against 10,430,000,000 korunas in 1955. The funds thus freed will be used for socialist construction.

Thus the Czechoslovak state budget has become a budget of peace and creativeness, a budget of the socialist transformation of the country and the strengthening of her economic independence.

5. The Present Czechoslovak Tax System

Externally retaining their old form, the taxes in present-day Czechoslovakia have changed their essence and nature fundamentally, changing from a means of oppression and exploitation of the workers into a means of building a new, socialist society.

Under the capitalist order taxes are the state's principal source of income, its material base. K. Marx pointed out that in them "lies the economically expressed existence of the state. Officials and priests, soldiers and ballerinas, schoolteachers and policemen, Greek museums and Gothic towers, the maintenance of sovereigns and nobles -- all these fairy-tale creations are concealed, like germs in the same common seed, in taxes" (K. Marks, F. Engels, Soch., Vol V, page 215).

In bourgeois Czechoslovakia taxes were the forced and unreturnable withdrawal of a portion of the workers' income to maintain the apparatus of oppression and force. Falling with all their severity upon the working class and the working peasantry, the taxes caused still greater impoverishment of those segments of the population. As a very important means of additional exploitation they lead to the reallocation of the national income, contributing on the one hand to the further ruination and impoverishment of the masses of the people, and on the other hand, to the acceleration of the process of concentration and centralization of capital, the enrichment and intensification of the dominance of the financial oligarchy.

Under conditions of the regime of the people's democracy taxes are used to strengthen and develop the socialist way of life, to raise the workers' material standard of living, and to restrict the exploiter elements and crowd them out of all branches of the economy.

Whereas in capitalist Czechoslovakia taxes were the state's principal income and reflected the state's parasitical nature, under the regime of the people's democracy the receipts from the socialist economy are of primary importance for state income. In people's democratic Czechoslovakia taxes from the population are one of the forms by which the members of society participate in financing of socialist construction. They constitute an insignificant part of the workers' income and, unlike the taxes of the capitalist states, are reimbursable in nature, insofar as they serve as an additional source of financing the national economy and social and cultural measures.

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In its development the Czechoslovak tax system has been subjected to no small changes.

During the first years of its existence bourgeois Czechoslovakia made complete use of the tax system of the former Austro-Hungarian Empire. From the end of 1919 until the end of 1921 this system was reorganized and expanded. First of all, the tax rates were increased (additional payments for war tax, income tax, etc). Then taxes on alcoholic beverages, transportation, etc were reorganized. Finally new taxes were introduced: turnover tax, tax on luxury goods, coal, waterpower, and property.

The tax system of bourgeois Czechoslovakia was characterized by the multiplicity of direct and indirect taxes. The system of direct taxes which was established in 1927 by a special law, rested on the principle of bilateral taxation of income. First, by the income tax, the object of which was the aggregate income of the taxpayer. The rates of this tax were progressive (from one to 29%). Second, by 6 additional taxes -- land, house, general tax on profit, special tax on profit, tax on rent, and tax on high salary and bonuses.

The system of indirect taxes which was introduced in 1919 consisted of taxing all commodity turnover and services, excise duties on necessities of life, and fiscal monopolies in salt, saccharine, tobacco, explosives, and customs duties.

During the period of occupation, 4 different tax systems were in effect in Czechoslovakia: the system of the former Protectorate, where the prewar Czechoslovak taxes were to a considerable extent reorganized according to the German system; that of the former Slovak State, where for the most part the old Czechoslovak taxes were retained; the German tax system on the territory of the western and

northwestern border regions; and the separate system of taxes in the regions of Slovakia that were occupied by Hungary.

After taking the power into its hands the people's democratic Czechoslovak state, at the first stage of its development for the most part used the tax system which was in operation in the country before World War II, after introducing a number of important changes in it.

In the end of 1945 the process of unifying the taxes began. This unification was an unusual phenomenon. It evolved from the people's democratic nature of the revolution and the specific location of the class forces in Czechoslovakia at that time. The unification of the tax system was not a simple restoration of the old bourgeois tax. The class direction of the taxes changed: the taxation of capitalist in urban and rural areas increased and conversely the taxes levied on the workers decreased.

For example, the law of 20 December 1945 renewed the action of the income tax that had been introduced in 1927. But whereas formerly with a yearly income of one million korunas or more the tax was paid at a rate within the limits of 20 to 29%, now all the income in excess of one million korunas was taxed at the rate of 70%. The high rates of income tax struck hard at large-scale capital, which in the past enjoyed great tax advantages.

In addition the nontaxable minimum was considerably raised. According to the old situation a taxpayer with 7 or more dependents began to pay tax at income of 11,000 korunas a year but according to the new law, he begins at income of 40,000 korunas a year.

The law of 13 October 1945 restored the special tax on profit the rates of which were also sharply increased. They were established in the amount of 60% of the pure profit.

The unification also touched indirect taxes: on 19 February 1946 a law was adopted to introduce a uniform system of excise duties and of state fiscal monopolies. Again basically the old system of excise duties which existed in prewar Czechoslovakia was restored, but at the same time the small-income excise duties were abolished and the procedure of levying other excise duties was simplified.

The law of 21 February 1946 restored the Czechoslovak turnover tax but its rate was raised from 2% to 3%. On 15 May 1946 2 new taxes went into effect: the property tax and the tax on increase in value of property. The aim of this measure lay in the attempt to withdraw from the bourgeoisie the monetary funds which as a result of the unblocking of accounts (according to the 1945 monetary reform), were able to enter the channels of monetary circulation.

Thus the tax policy carried out during this period was of a people's democratic nature. It reduced the share of indirect taxes which predominated in the budget of bourgeois Czechoslovakia and lay with all its weight upon the shoulders of the workers, and increased the role of direct taxation, in particular taxes on large-scale income.

But despite the fact that considerable changes had been made in the tax system, it did not correspond to the demands of the people's democratic state that had developed, but was rather complex and obsolete. The creation of a tax system that corresponded to the nature of the new order became an objective necessity.

In March 1946 at the Eighth Congress of the Communist Party of Czechoslovakia the demand for carrying out a tax reform was advanced for the first time. This demand became part of the program of the new government that was headed by the communists.

In implementing the tax reform the National Assembly on 26 July 1947 adopted a tax law concerning the taxation on wages which was levied on all hired workers.

The tax rates were constructed on an increasing scale from 2.7 to 85%. With wages of one million korunas a year the tax rate was 67.29%. Wages for overfulfillment of individual-output norms and for overtime were not taxed.

In September 1947 the tax for price equalization was introduced. For the most part the payer of this tax was the capitalist class. In December 1947 the tax on millionaires was established. This was a one-time tax on property the value of which exceeded a million korunas. This tax was levied on a progressive scale (from 2 to 20%) with additional taxation of the value of increase in property after the carrying out of the 1945 monetary reform and until 31 December 1947.

Furthermore the National Assembly on 20 and 21 March 1948 adopted laws governing agricultural and trade taxes. The levying of these taxes according to their extent corresponded to the level of taxation upon wages.

The agricultural tax was levied upon persons carrying out agriculture on an area of up to 50 ha. The tax rates were differentiated into 4 production zones: sugar beets, grain crops, potatoes, and fodder crops. The peasants were given great advantages. Actually 9% of the peasant farms proved to be the taxpayers, and 91% did not have to pay. The taxation of the Czechoslovak peasants in 1948 dropped by more than 500 million korunas. But for rich-peasant farms the tax rates were tripled.

The trade tax was levied upon persons who personally engaged in small-scale trade, who received no more than 120,000 korunas of income a year, and employed only one worker and one apprentice. When calculating the tax the tradesman's income was equated with a year's wages of a skilled worker. To this sum was added as much as 25% of the wages paid the hired worker or apprentice and from 2 to 7% of expenditures for the purchase of materials. The rates of this tax were established on the level of the rates of the tax on wages. The lowest rate (at income of 20,400 korunas per year) was 2.6% and the highest (120,000 korunas), 22.4%. The nontaxable minimum was 19,200 korunas. Actually the trade tax was paid by 68% of all tradesmen.

In order to intensify the taxation of the nonlaboring population the National Assembly of the Czechoslovak Republic on 19 July 1948 adopted a law which somewhat changed and supplemented the 1947 law concerning the extraordinary one-time tax on property.

Continuing the process of unifying the tax system the government on 1 January 1949 introduced a general tax which replaced 22 taxes previously in effect: the turnover tax, the tax on price equalization, the tax on luxury items, transportation taxes and duties, duties for the use of trading books, stamp tax, etc.

The general tax considerably simplified the Czechoslovak tax system and increased its efficacy. It was constructed as follows: all the taxpayers depending upon the social group to which they belonged and the type of activity were divided into 4 groups (A, B, C, D). Not only were special rates established for each but also the object of taxation, income, etc.

According to tariff A, the tax was levied on state enterprises in industry, agriculture, and trade, that is, upon the overwhelming majority of the country's enterprises. According to this tariff the object of taxation was the turnover of goods and the proceeds from the rendering of services. A procedure of one-time taxation was established. The peculiarity of the general tax consisted in the fact that it was levied upon articles in all branches of industry, including those producing producer goods.

The second group of payers of the general tax was made up of private-capital enterprises in industry and some cooperative enterprises. The taxation of the latter according to tariff B differed sharply from the taxation of the private sector. For example a private capitalist with 10 hired workers was obliged, according to tariff B, to pay 75,000 korunas tax a year, whereas a cooperative with the same number of workers had to pay 10,000 korunas.

The third group of payers of the general tax (tariff C) included private agricultural enterprises which occupied more than 20 ha of land or had less than 20 ha of land but did not fulfill the compulsory state deliveries of farm produce. The object of taxation for this group was not turnover as for tariff A, but the amount of land cultivated and its income yield. In this regard the entire territory of the country was divided into 4 production zones: sugar beets, grain crops, potatoes, and fodder crops. The tax rates increased progressively as the amount of land cultivated on the farm increased.

The fourth group of payers of the general tax (tariff D) included cooperative and private enterprises engaging in transportation and forwarding operations. In this instance the tax rates were established according to the social group to which the payer belonged.

The general tax was used not only to mobilize the monetary accumulations but also as an acute class weapon of the people's democratic state. It played an important role in fulfilling the First Five-Year Plan. However the general tax also had major shortcomings: it was extremely complicated and cumbersome, and required a large accounting apparatus in the financial organs. The levying of the tax was concentrated not in production but in the wholesale link of trade.

In 1950 2 new laws were approved to continue the tax reform: the tax on income of workers in literature and art and the tax on income of persons in free professions (lawyers, teachers, and physicians engaged in private practice). The tax rates on income of workers in literature and art were lowered, and of persons in free professions, raised.

On 1 January 1952 the special tax of profit which was levied upon state enterprises and had been established 13 October 1945 was abolished. To replace it a system of deductions from profits was introduced. The special tax on profit continued to be paid until 1 January 1953 by just cooperative and private enterprises.

The full reorganizations of the tax system of the Czechoslovak Republic was completed on 11 December 1952, when the National Assembly adopted a number of very important financial laws which established the following tax system:

1. turnover tax, tax on noncommodity operations, entertainment tax;
2. income tax on cooperatives and other organizations;
3. tax on wages, agricultural tax, income tax on the population, trade tax, tax on earning of workers in literature and art, tax on structures;

4. local taxes -- on owners of livestock or dogs, tax for the use of public territory, etc. There was a total of 5 taxes instead of the previously existing 35.

In the new tax system the shortcomings of the former taxes were eliminated and the payments to the budget were regulated in accordance with the demands of the further socialist development of the country, the growth of united agricultural cooperations, and the demands of limiting the capitalist elements in urban and rural areas and crowding them out of existence.

On 1 January 1953 the general tax was abolished and was replaced by the turnover tax. In its general features the latter is similar to the turnover tax in the USSR.

In the Czechoslovak Republic the turnover tax now occupies the principal place among the payments of the socialist economy and is together with deductions from profits, one of the forms of withdrawing a portion of society's pure income. In the total amount of income of the Czechoslovak state budget planned for 1956 it comes to 50.8%.

According to its nature the turnover tax in present-day Czechoslovakia no longer is a tax or some kind of deduction from the workers' income. The people's democratic state systematically raises the real level of wages with a consideration of the prices of consumer articles, which prices include the turnover tax.

In Czechoslovakia the tax is levied on the turnover involved in selling commodities produced by socialist enterprises and in selling farm produce in connection with state purchases. The turnover tax on the sale of farm produce in connection with state purchases,

is paid only by the state purchase organizations. United agricultural cooperatives and peasants do not have to pay it.

The turnover tax, as a rule, does not extend to producer goods. It is levied chiefly upon the turnover of branches producing consumer goods. The turnover tax is paid by sales organizations of production branches and where such do not exist, directly by the production enterprises.

A very important feature of the turnover tax is the one-time nature of taxation. For the sale of one and the same commodity the turnover tax is paid just once. But if the sold commodity, as a result of reprocessing, takes on a new quality, it is taxed a second time.

Commodities which are exported are not subject to the turnover tax, since the entire proceeds from their sale is transferred to the state. For import commodities for personal use the tax is included in the rates of customs duties.

The determination of the turnover subject to tax is usually based on the state retail prices or the so-called release prices. By release price one understands the wholesale price, including turnover tax.

The tax is established: in the form of the difference between the state retail price (after the deduction of the trade discount) and the wholesale price, or between the release price (that is, wholesale price including tax) and the wholesale price (not counting tax) or in the form of a fixed percentage of the retail or release price or a fixed sum per unit of commodity.

For most mass consumer goods the amount of tax is determined by the first of the methods listed. The turnover tax is computed with the aid of price lists of state wholesale and retail prices introduced on 1 January 1953. Designating the periods for paying it to the budget, consideration is made of the volume of receipts for each branch of the economy (each enterprise). Frequent periods of payment (for example, daily payments, payments every 3 days, every 10 days) are established for enterprises paying considerable sums of turnover tax. But longer periods of payment (but no less frequently than once a month) are established for enterprises that pay only small amounts of tax.

The amounts of turnover tax are computed by the taxpayer. After the expiration of the year the taxpayers submit to the financial organs their statements on current payments during the year for checking the paid tax with the data of the annual bookkeeping audit of the taxpayer enterprise. In case of necessity a recalculation is made.

The exceeding of the tax-payment deadlines incurs sanctions on the part of the financial organs. Thus for each day late the penalty in the amount of 0.05% of the sum of the arrears is charged. If the enterprise has not submitted the tax report on time, the tax can be increased, but no more than 1%.

Accumulations created at enterprises of the socialist way of life as a result of their execution of some kind of operations or services for the population are withdrawn to the budget in the form of the tax on noncommodity operations. The latter is levied upon the manufacture of articles from the materials of the client, repair of articles, services of motor transport, and other noncommodity operations (barbershops, photograph shops, hotels, etc).

*

The price (including tax) charged for the work or service is considered the taxable turnover.

The tax rates are established in the amount of from one to 20% of the price of the noncommodity operation.

United agricultural cooperatives do not have to pay the tax on noncommodity operations. Neither do foreign-trade organizations since they transfer to the state all the proceeds from their noncommodity operations. Railroad, air, and water transportation are similarly not taxed.

The tax on noncommodity operations is in essence a variety of the turnover tax. Therefore the procedure and time limits for the payment of the tax and the control of it are identical for both taxes.

Another variety of the turnover tax is the entertainment tax, which goes to the budget of local national committees. Its rates are determined in the amount of 5 to 40% of the gross receipts obtained from the sale of entrance tickets to the entertainment enterprise. The tax is included in the ticket price. In addition its rates are differentiated according to the type of entertainment. Individual enterprises receive advantages and some of them do not have to pay the tax at all.

An important source of income on the state budget is deductions from the profits of state enterprises.

The amount of these deductions is determined according to the free excess of profit in the amount of 10 to 95-99%. Enterprises with planned losses do not pay deductions to the budget.

The established order of making deductions from the profits of state enterprises makes it possible for the financial organs to control their activity.

Cooperative organizations (consumer, producer, housing, timber, etc), with the exception of united agricultural cooperations, enterprises of voluntary and other associations, joint-stock associations, etc transmit to the budget a portion of their income in the form of income tax, the deduction of which is made for each calendar year (after it has expired). This tax is established on the basis of the balance-sheet profit obtained during the tax period from economic activity.

The rates of income tax are differentiated according to the profitability -- in percent (the amounts of taxable profit are recomputed here and in the description of subsequent taxes according to the new rate, that is, they are reduced by 5 times):

(a) cooperatives with taxable profits (the tax rate for enterprises of consumer cooperatives, according to government decree in 1954 was reduced to 25%, irrespective of the amount of profit received. Trade cooperatives were granted an advantage, which lies in the fact that the basis for computing the tax was lowered by 25%. A new statute on taxation of the profits of trade cooperatives according to the profitability of the particular enterprise is being prepared):

Taxable profit	Rate of income tax (in percentage)
up to 50,000 korunas	40
50,000 to 80,000 korunas	50
more than 80,000 korunas	60
(b) enterprises of voluntary and other types of associations with taxable profits:	
80,000 korunas	10
more than 80,000 korunas	20
(c) other taxpayers:	
80,000 korunas	75
more than 80,000 korunas	90

This tax is also computed by the taxpayers themselves. It is paid on a quarterly basis: at the end of each calendar quarter for which the tax is paid. Prior to 31 March after the expiration of the tax period the payers are obliged to submit tax declarations to local national committees. Otherwise their tax rate can be raised as much as 10%.

For each day late in paying, a penalty in the amount of 0.1% of the arrears is charged.

On 1 January 1953 the 1947 law concerning the tax on wages and all decrees issued to develop it were abolished.

All the income of workers and employees which they receive by way of labor relations including the payment of overtime, bonuses, etc is taxed by a new wage tax whose rates are computed according to the following table.

Amount of Wages (No of Korunas)		Amount of Tax
up to 300		5%
300-400		8%
400-600	32 korunas + 10% of the sum in excess of	400 korunas
600-800	52 korunas + 11% of the sum in excess of	600 korunas
800-1,000	74 korunas + 12% of the sum in excess of	800 korunas
1,000-1,200	98 korunas + 13% of the sum in excess of	1,000 korunas
1,200-1,400	125 korunas + 14% of the sum in excess of	1,200 korunas
1,400-1,600	152 korunas + 15% of the sum in excess of	1,400 korunas
1,600-1,800	182 korunas + 16% of the sum in excess of	1,600 korunas
1,800-2,000	214 korunas + 17% of the sum in excess of	1,800 korunas
2,000-2,400	248 korunas + 18% of the sum in excess of	2,000 korunas
more than 2,400	320 korunas + 20% of the sum in excess of	2,400 korunas

The nontaxable minimum on wages is 200 korunas a month, and for those receiving pensions 700 korunas a month: 200 korunas, the generally effective minimum, plus 500 korunas according to a special decree.

According to the state of a family a tax deduction is granted in conformity with a governmental decree of 1953 in the amount of: 30% for taxpayers with 3 dependents; 50% with 4; and 70% with 5 or more.

For taxpayers who do not have dependents the tax is increased by 60% if the taxpayer is a male aged 25 to 50 or a female aged 25 to 40, and in all other instances increased by 40%. For working married females the tax is increased by 50% for age 25 to 40, and in all other instances by 35%. Additional wages are taxed in the event that the wages exceed 560 korunas a month.

Not subject to tax on wages are: awards for inventions or efficiency suggestions, insurance payments during period of illness,

one-time payments on national pension insurance, grants for education of children, etc.

On 1 January 1953 the agricultural tax was replaced by a different agricultural tax that was levied on both peasant farms and on united agricultural cooperatives. The object of taxation is the income from the running of the farm. It is computed according to average norms of income yield of the land of agricultural purpose and according to the total area of the land plots suitable for cultivation.

The average norms of income yield are established every year by the government depending upon the specialization of the area in which the taxed object is located and according to the harvest yield. Consideration is also made of the production assignments for vegetable and animal husbandry.

The rates of the agricultural tax are sharply differentiated. They are reduced for poor and medium farms and are increased for rich peasants.

The yearly rates of the agricultural tax are determined as follows.

Amount of taxable income on the farm (number of korunas)	Amount of tax
up to 4,000	2%
4,000-8,000	80 korunas + 2.5% of the sum in excess of 4,000 korunas
8,000-12,000	120 korunas + 3.0% of the sum in excess of 8,000 korunas
12,000-20,000	300 korunas + 7.0% of the sum in excess of 12,000 korunas
20,000-30,000	860 korunas + 15.0% of the sum in excess of 20,000 korunas
30,000-40,000	2,360 korunas + 25.0% of the sum in excess of 30,000 korunas
more than 40,000	4,860 korunas + 40.0% of the sum in excess of 40,000 korunas

These rates were determined for the payers of the agricultural tax who have one child. The amount of tax for persons with no children is increased by 10%, and for those with many children it is lowered. For example if the taxpayer has 2 minor children a deduction of 15% is given; for 3, 30%; for 4 or more, 45%, but not more than 1,200 korunas for each separate household.

For rich-peasant farms the tax can be increased by the regional national committee as much as 30%.

The nontaxable minimum for income is 3,000 korunas a year, as a result of which 10% of all farms do not have to pay the agricultural tax at all. The united agricultural cooperatives and their members receive large advantages. In this regard the agricultural tax plays a very small role in the income of the state budget of Czechoslovakia. In 1955 it actually came to just 374 million korunas or 0.4% of the total income.

Persons who are not hired workers -- handicraftsmen who are not members of cooperatives, merchants, and small-scale entrepreneurs using hired labor -- pay the income tax on the population. According to the social group to which they belong and the sources of their income the payers of this tax can be divided into 2 groups.

The first group is made up of physicians engaged in private practice, teachers giving private lessons, and handicraftsmen and tradesmen who are not members of cooperatives and who do not use hired labor. With an annual income of 3,000 korunas their tax rate is 5%, and with an annual income exceeding 100,000 korunas, up to 53.5%. The nontaxable minimum is 2,400 korunas.

The second group is merchants, hotel owners, and handicraftsmen

using hired labor. For this group the rates of taxation are also determined according to annual income. For example with an income of 3,000 korunas a rate of 6% is established and with an income exceeding 100,000 korunas 61.1%. The nontaxable minimum is 1,800 korunas.

The trade tax is levied on persons engaged in some hand trade, in trading operations, or in cartage, restaurant or hotel owners, etc. The annual rates of the trade tax are as follows (in korunas).

Type of Trade	payer (only)	with one hired worker or ap- prentice	with 2 hired workers (in- cluding appren- tices)	with 3 hired workers (in- cluding apprentices)	for each addi- tional worker (including ap- prentices)
Trades and handi- crafts, Class I*	800	1,600	3,000	4,600	2,000
Trades and handi- crafts, Class II	1,500	2,500	4,400	6,800	2,400
Maintenance of restaurants	1,600	3,200	6,000	9,600	4,000
Cartage	2,000	4,000	7,000	11,000	5,000
Motor transport	2,400	5,000	9,000	14,000	6,000
Trading operations	2,400	5,000	9,000	14,000	6,000

*The list of trades and handicrafts, classes I and II, is determined by the government.

This tax is also established on the basis of declarations submitted by the taxpayers to the local national committee within the established time limit. If such declaration is not submitted the tax can be increased as much as 10%. For each day late in payment, a penalty in the amount of 0.1% is charged.

Of taxes and duties whose proceeds make up the income of local national committees, the most important is the tax on structures which was introduced in new form to replace the previous law of 11 December 1952. In the Czechoslovak Republic a considerable number of homes are still in the hands of private owners. The old tax on structures did not completely encompass the income which the individual owners of a large number of houses obtain from renting them.

At the present time the tax on structures is paid by: (a) individual persons -- on structures which they possess; (b) cooperatives, voluntary associations, and other juridical persons -- on structures which they possess or use permanently. According to the governmental decree of 1955 the enterprises and organizations carrying out their activity on the principles of business accountability do not pay the tax on the state structures which are under their jurisdiction or permanent use.

The basis of taxation is the rental for the use of the building. If at the same time use is also made of an area near the building (orchard, truck garden), the amount of rental is increased accordingly (within the limit of 10-80%).

As a rule, the tax is made up of 45% of the rental, when it does not exceed 6,000 korunas a year, or 50%, if that sum is higher.

The tax on structures which are not rented (not counting structures of economic organizations or cooperatives) is paid according to the amount of the constructed area. The yearly tax in this event is computed on the basis of each sq m of constructed area at the rate of 0.8 korunas in populated areas with up to 1,000 persons; 1.2 korunas, up to 6,000 persons; 2 korunas, up to 25,000 persons; and 2.6 korunas with population of more than 25,000. In

large cities -- Prague, Brno, Bratislava -- and at health resorts the rate is 5 korunas per sq m of constructed area.

The tax on structures of economic organizations and cooperatives is computed in the amount of 1% of their balance-sheet total.

The procedure and deadlines for payment of local taxes and their rates are established by the minister of finance in conformity with the decision of the government.

Local taxes and duties do not play a considerable role in the overall volume of state income.

Thus Czechoslovak tax system at the present time does not serve as a mean of the additional exploitation of the workers. It is used by the people's democratic state for the construction of a new, happy life for the nations populating it.

THE FINANCE-CREDIT SYSTEM OF CZECHOSLOVAKIA

Finansovo-kreditnaya sistema
Chekhoslovatskoy respubliki
[Finance-Credit System of
Czechoslovak Republic], 1956,
Moscow, Pages 142-159

V. Komissarov

CHAPTER IV. THE INTERNATIONAL SETTLEMENTS AND
CREDIT RELATIONS OF CZECHOSLOVAKIA WITH FOREIGN COUNTRIES

1. Basic Principles of the International Settlements of
Czechoslovakia

The international settlements of the Czechoslovak Republic with foreign states are based on economic and cultural collaboration. The striving for broad development of this collaboration is a characteristic feature of the foreign policy of the Czechoslovak People's Democratic Republic.

The economic and cultural ties among countries in the socialist camp are effected by way of the most efficient utilization of economic resources and production capacities in the general interests, the coordination of the plans for developing individual branches of the national economy, the specialization and cooperation of production, the exchange of scientific and technical achievements, advanced work experience, etc. Czechoslovakia, as a state with a highly developed industry, has contributed a large share to the common task of greatly increasing the productive forces of the camp of socialism. In addition, following the doctrine laid down by V. I. Lenin concerning the possibility of long and peaceful coexistence of 2 opposing systems -- socialist and capitalist -- Czechoslovakia also collaborates with a number of capitalist states on the basis of mutual advantage and the fulfillment of obligations.

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The broad friendly collaboration and mutual help that link the nations of the socialist camp are a new phenomenon in world history. It arose after a number of countries in Europe and Asia fell away from capitalism and socialism became a worldwide system. The Soviet Union and the free and independent states of Europe and Asia, having united, are creating a new social order and the relations established among them are new ones which differ fundamentally from those that exist in the capitalist world, where everything is constructed on the race for profit, for the domination by the strong and the enslavement of the weak.

All countries in the socialist camp have a vital interest in helping one another. The relations among them are constructed on the basis of close collaboration, friendship, and disinterested, fraternal assistance. Each country enters into collaboration as an equal sovereign agent. Insofar as the economic relations of these states are closely bound up with their national economic plans, all the contractual obligations are fulfilled in every detail.

The development of close economic ties between the Soviet Union and the people's democracies, and the formation of a worldwide socialist market are of tremendous importance for the peaceful competition of the 2 systems -- socialist and capitalist. The leading role in the world socialist market is played by the USSR which, having created a first-rate industry, is daily assisting the people's democracies to transform their economy and offering them long-term credits on the most favorable terms.

In the process of the economic collaboration of the states in the socialist camp, a new international division of labor is

developing, whereby each of these states allots a portion of its efforts and resources to satisfy the needs of other states and in its turn obtains friendly assistance. This method facilitates the development of native industry and saves efforts and funds.

The socialist international division of labor differs in principle from the international division of labor under capitalism. The basis of socialist international division of labor is not relationships of domination and subjugation, not competition and the anarchy of production, but friendship, comradely mutual assistance, and the coordination of plans for economic development.

Until recent times however there has not been the proper coordination of national economic plans among the socialist states. This has hindered the complete utilization of all the advantages of the socialist international division of labor. The coordination of economic plans has been carried out chiefly indirectly, with long-term economic agreements, for example, agreements to deliver equipment and materials, serving as a very important means for this purpose. But now the economic and organizational prerequisites have been created for the transition to direct coordination of plans with respect to a large number of indexes as the plans are drawn up and carried out. Under these conditions there will be a complete change in the role of long-term economic agreements. They no longer will be a means of coordinating plans but, on the contrary, will be founded on that coordination, they will reflect its results.

Direct coordination of the plans for economic development will make it possible for the countries of the socialist camp to

coordinate still better the growth of individual branches of industry and to save tremendous funds. It is well known, for example, that in Czechoslovakia, as a result of the one-sided economic development in the past, the capacity of textile and footwear enterprises considerably exceeds the domestic needs. But at the same time, in neighboring people's democracies, large funds are being used to construct new textile and footwear factories. Mutual interests demand that these states deliver to Czechoslovakia for processing some of their textile and leather raw material, and that they themselves build other enterprises that they need. The same can be said with respect to individual branches of industry.

At the present time it is becoming expedient to have each of the countries of the camp of socialism specialize in the mass manufacture of those types of articles for the production of which the country has especially favorable possibilities: natural resources, skilled cadres, etc. With such a situation in each socialist state it will not be necessary to develop all branches of heavy industry, as the Soviet Union was forced to do under the conditions of capitalist encirclement.

The advantages of the socialist international division of labor are completely obvious. It creates the conditions for the unprecedented growth of labor productivity and the improvement of the quality of production. Thus by fulfilling orders of fraternal republics for equipment and other industrial articles, Czechoslovakia not only helps the industrialization of the other states, but simultaneously accelerates the development of her own heavy machine building.

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A great deal of attention is being paid to looking for the most efficient forms and methods of the mutual economic collaboration of states in the socialist camp. A great contribution to this matter was made by the Twentieth Congress of the Communist Party of the Soviet Union, which set down the paths for the further development of the economic links among those countries.

An important form of international economic collaboration is foreign trade.

The trade relations between the Czechoslovak Republic and foreign countries, like those between the Soviet Union and foreign countries, are founded on the state monopoly of foreign trade.

At the first stage of the people's democratic revolution, when private capital still prevailed in foreign-trade turnover (two-thirds of the import and one half of the total export passed through capitalist firms), the government, by the decree of 27 October 1945, introduced a system of prohibitions and authorizations, by establishing state control and regulation of foreign trade and international settlements. This decree limited the foreign trade activity of Czechoslovak capitalists and prepared the conditions for the transition to the state monopoly of foreign trade.

The monopoly of foreign trade was established at the second stage of the development of people's democracy in Czechoslovakia by the law of 28 April 1948, "State Organization of Foreign Trade and International Forwarding Operations," and was consolidated by Article 152 of the constitution.

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The state monopoly of the foreign trade in Czechoslovakia, which is going along the path of socialism, fulfills 3 basic functions: it helps to develop the country's productive forces; it is used to coordinate the planned economy of Czechoslovakia with the planned economy of the Soviet Union and other countries in the socialist camp; and it serves as a means of protecting the growing socialist economy from the economic advances of capitalist states. It does not have anything in common with the various methods of control and regulation of foreign trade which are introduced by capitalists, including governmental monopolies of export and import. State monopoly of foreign trade is out of the question in every capitalist state.

All the international settlement and credit relations between Czechoslovakia and foreign states are carried out on the basis of the monopoly of foreign trade and the state currency monopoly that is inseparably bound up with it. Thanks to the state currency monopoly the state has concentrated in her hands all the operations with the currency gained from export and other sources, using it to pay for import and for other state expenses abroad.

The currency legislature of the Czechoslovak Republic is based on the state currency monopoly. The law "Currency Operations," which was adopted by the National Assembly on 22 December 1953, established the procedure for current foreign settlements, and the rights and obligations of institutions and economic organizations and those of the Czechoslovak and foreign citizens with respect to operations with foreign currency and other currency assets.

The currency monopoly of Czechoslovakia extends to 3 categories of assets: cash foreign currency and payment documents (promissory

notes, checks, money orders, letters of credit, and other payment authorizations) written out to foreign currency; precious metals in coins, ingots, and scrap; foreign securities (stocks and bonds), interest and dividend coupons, insurance policies, etc.

All settlements of state institutions, foreign trade, and other economic organizations in foreign currency are made only through the State Bank.

The currency proceeds from export and other operations are concentrated in accounts at the State Bank for its correspondents abroad. At the order of foreign trade and other organizations the bank pays the expenses in foreign currency from these accounts.

Control over the execution of currency legislation and the orders published to develop it is entrusted to the Czechoslovak Ministry of Finance.

2. Payment and Settlement Relations of Czechoslovakia for Commodity Turnover with the USSR and the People's Democracies

Rallying around the Soviet Union, the people's democracies have established close economic ties with one another, and they have united their efforts to accelerate their movement along the path of socialism.

An important place in the economic ties of the states of the socialist camp is occupied by commodity turnover. The most important thing evolving from the commodity turnover and payment agreements concluded between these countries is their payment and settlement relations.

At the first stage of the development of people's democratic Czechoslovakia her economic collaboration with the Soviet Union and the countries of the socialist camp developed in an environment of severe class struggle. Internal reactionary forces exerted all their efforts to break these economic ties. But after the victory of the Communist Party in the May 1946 elections and the transition of the country to long-range economic planning, Czechoslovakia began to conclude long-term agreements with the countries of the socialist camp, instead of short-term economic agreements. For example, on 4 July 1947 Czechoslovakia signed a 5-year agreement for commodity turnover and payment with Poland, and on 11 December 1947, with the Soviet Union.

The defeat of the reactionary forces in February 1948 played a tremendous role in the further expansion and deepening of the economic ties between Czechoslovakia and the states in the socialist camp. In 1951 Czechoslovakia signed a 5-year agreement for commodity turnover and payment with the Soviet Union, Poland, Bulgaria, and the German Democratic Republic; and specific long-term agreements were concluded with Hungary, Rumania, and Albania for the delivery of machinery and equipment to those countries.

The possibility and necessity of concluding and actually fulfilling long-term agreements by the people's democracies are explained by the fact that in them the law of competition and the anarchy of production has given way to the law of the planned, proportional development of the national economy.

On the basis of long-term trade and payment agreements, yearly agreements for commodity turnover are concluded and protocols for commodity deliveries and payments are signed. The protocols usually

contain lists of the commodities that both contracting parties are obliged to deliver during the year.

Agreements for commodity turnover between capitalist countries are the complete opposite of this. Instead of firm contingents, the delivery of which is guaranteed by the state, these agreements stipulate that the governments of the contracting parties will assist in the issuing of authorizations to import and export the commodities named in the lists.

The commodity contingents stipulated in the agreements of the states of the socialist camp emerge in this instance as a commodity turnover plan for the yearly period. This plan is part of the national economic plan. The commodity contingents serve as the expression of the mutual coordination of the national economic plans.

The volume of the mutual commodity turnover which is established in the commodity lists of the agreements between Czechoslovakia and the Soviet Union, and with the people's democracies, is growing from year to year.

GROWTH OF TRADE BETWEEN CZECHOSLOVAKIA AND THE COUNTRIES OF THE SOCIALIST CAMP*

	(in percentage to 1948)	
	1949	1954
USSR	157.3	320.7
Albania	100.0	316.0
Bulgaria	141.0	209.3
German Democratic Republic	212.0	695.8
Hungary	140.3	310.1
Poland	134.3	180.2
Rumania	147.8	102.0

*Razvitiye ekonomiki stran narodnoy demokratsii [Development of the Economy of the People's Democracies], 1955, Vneshtorgizdat, Page 203.

Trade relations between Czechoslovakia and the Chinese People's Republic are developing successfully. On 14 June 1950 a Czechoslovak - Chinese agreement was signed in Peiping concerning commodity turnover and payment; this agreement was only the first step toward the expansion of the mutual ties between these states. Subsequently 4 more agreements were signed. If the volume of commodity turnover between those countries in 1950 is taken as 100, in 1951 it was 336; in 1952, 337; in 1953, 438; and in 1954, 447 (Chekhoslovatskiy ekonomicheskiy byulleten' [Czechoslovak Economic Bulletin], No 303, 1955, page 3).

At the present time the bulk of the Czechoslovak foreign trade turnover is on the world socialist market.

SHARE OF THE COUNTRIES OF THE SOCIALIST CAMP IN THE
OVERALL VOLUME OF THE CZECHOSLOVAK FOREIGN TRADE

(In % -- ibid., No 304, page 1)

Year	1937	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954
Countries of the socialist camp		43.0	22.0	14.0	32.6	46.5	55.6	61.6	71.4	78.4	74.6
Including USSR	1.0	26.0	12.5	5.8	15.9	23.7	27.4	28.8	34.8	35.5	36.1

Commodity deliveries of the USSR are of great importance for the successful development of the Czechoslovak economy. The Soviet Union is the principal supplier of very important types of industrial raw material (iron and manganese ore, copper, aluminum, petroleum, synthetic rubber, cotton, wool) for the Czechoslovak heavy industry

and a number of branches of light industry, and also of several types of machinery and equipment which make it possible to mechanize labor consuming operations in the coal and construction industries, etc.

In her turn Czechoslovakia delivers to the USSR varied output of the machine-building industry (diesel and electric locomotives, tugs, dredges, boilers, turbines, generators, power trains, lifting and transporting machinery, chemicals, forge-press equipment, etc).

Soviet orders have played an important role in the mighty growth of the technical level of the Czechoslovak machine building. The country has adjusted to series production of many types of modern highly productive equipment, has mastered the production of types of equipment previously not manufactured there, for example, dredges, power trains, mighty diesel engines, large-scale refrigeration equipment, petroleum apparatus, and other machinery.

The trade ties between Czechoslovakia and the Chinese People's Republic are also yielding significant results. Deliveries of the Czechoslovak equipment for electric power stations and sugar refineries, metal-processing machine tools, lifting cranes, etc are contributing to the acceleration of the socialist industrialization of China. In her turn Czechoslovakia receives from the Chinese People's Republic ore, nonferrous metals, and raw materials for the textile, leather, chemical, and food industries.

The economic ties between Czechoslovakia and Poland, Hungary, Rumania, Bulgaria, and Albania are becoming stronger. Czechoslovakia supplies Hungary with complete equipment for electric power stations, aluminum plants, etc.

Czechoslovakia is rendering a great amount of assistance to Rumania in the development of her industry, and to Albania in the socialist industrialization of her economy.

The economic collaboration between Czechoslovakia and the German Democratic Republic is growing rapidly; both are industrially developed countries with an extremely similar structure of industrial production. Czechoslovakia exports to the German Democratic Republic metallurgical coke, rolled ferrous metals, articles of the machine-building industry, thread, fabrics, footwear, hops, etc. In exchange Czechoslovakia receives equipment for the mining, cement, food, printing, and other branches of industry.

Commodity deliveries according to trade agreements with countries of the socialist camp are regulated in such a way as to guarantee the equality of the mutual payments. The system of mutual payment of demands without the transfer of currency or gold is constructed on this principle.

On the basis of intergovernmental agreements the prices of the commodities to be delivered are coordinated between the foreign trade organizations of both contracting parties before the beginning of the following year, on the basis of prices on the world commodity markets and the introduction of certain corrective factors in necessary instances.

Settlements in accordance with commodity turnover and payment agreements between Czechoslovakia and the states of the camp of socialism are made through special, noninterest-paying clearing accounts that are opened in the central banks of the contracting parties.

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The clearing system of settlements conforms to the socialist nature of economic relations. This finds its reflection, particularly, in the fact that such settlements are made in a centralized procedure through the state banks. This method guarantees the complete control of banks over the settlement operations and the payment of only those deliveries that conform to the plan. Furthermore the mutual paying of demands simplifies settlements, by not involving them in the transfer of currency, and this makes it possible for central banks to avoid the freezing of funds in foreign currency reserves. Finally the organization of permanent control over the observance of the principle of equality of payment strengthens the planned principle in carrying out commodity turnover and settlements, and makes it possible to have an active influence upon them and to prevent the violation of the plan.

The Czechoslovak clearing accounts with other countries are kept in rubles. The prices of commodities to be delivered according to the commodity turnover and payment agreements are also fixed in rubles. This means that the clearing system of settlements has a simple basis that is not subject to devaluation.

The exact determination of the mutual payments on clearing accounts is very important for the planned organization of deliveries and settlements. The clearing system is a higher form of the organization of settlements between countries of the camp of socialism than settlements in local currency. In the latter instance there is no close planned interrelation between the settlements and commodity deliveries that exists with the clearing system. In addition the nature and level of prices of commodities and services within the country are different in local currency. As a result settlements outside the clearing system must be extremely limited and their limitations must be accurately defined.

Agreements between Czechoslovakia and Poland, Hungary, and Rumania stipulate the clearing system for payments of cost of commodity deliveries, expenses for commodity deliveries; expenditures for maintaining diplomatic and consular representations and other official missions; fees, pensions, grants, wages, and expenses for social security; copyright, patents, factory marks, motion picture rental; expenditures connected with cultural, trade, or technical exhibitions; participation in international fairs in one of the contracting countries; expenses for trips, tourism, and training; port and warehouses expenses; expenditures for passenger and freight river shipments.

Prior to 1955 the encashment and letter of credit forms of settlements which are generally accepted in the practice of international trade were the chief forms used in the trade relations between the Czechoslovak Republic and the countries of the socialist camp. For example, when making settlements with the USSR, Poland, and Bulgaria, Czechoslovakia used the encashment form, and when making settlements with Hungary, Rumania, Albania, and China, the letter of credit form. Since 1951 the general letter of credit has been used in settlements between Czechoslovakia and the German Democratic Republic. Since the middle of 1955 the letter of credit and encashment form of settlements (or general letter of credit) has been the principal means whereby the Czechoslovak Republic makes settlements with the countries of the socialist camp. The essence of this method of settlement lies in the fact that the supplier's bank immediately pays the supplier against the documents (stipulated in the corresponding contracts) presented by him for payment, without the order of the payer. The sum paid out is immediately entered on the clearing account of the purchaser's bank.

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Encashment payments from the purchaser are the concern of the bank in his country.

The finance conditions of settlements stipulated in contracts between the Czechoslovak foreign trade organizations and the foreign trade organizations of other states in the socialist camp are identical for both export and import operations.

The identical forms of settlement for export and import guarantee the conformity between the balance sheet for clearing account payments and the cost of the mutual commodity deliveries and services for the definite periods.

The ever-growing and ever-deepening economic ties between the countries of the socialist camp are also increasing the volume of their mutual payments. Therefore it is extremely important to improve the payment system and settlement technique to the point where they will facilitate the mutual exchange of commodities and accelerate the turnover rate of funds between those states.

3. The Czechoslovak Payment and Settlement Relations for Commodity Turnover with Capitalist Countries

In her foreign policy the Czechoslovak Republic carries out the principle of the peaceful coexistence of states with different social systems.

At the present time Czechoslovakia has adjusted trade relations with almost all capitalist countries; she carries on trade with 31 states on the basis of trade agreements that have been concluded.

Switzerland occupies an important place in the Czechoslovak foreign trade relations. At the end of 1949 both countries signed a trade and payment agreement to be in effect from 1 January 1950 through 31 December 1954. Subsequently these trade ties were regulated by the signing in May 1955 of a protocol for commodity deliveries.

Czechoslovakia exports to Switzerland sugar, malt, hops, coke, wood, cellulose, rolled metal, chemicals, textile articles; and imports from Switzerland equipment, ball bearings, ferroalloys, chemical commodities, synthetic fiber, etc. Both sides make settlements for commodity operations by means of unilateral clearing in Swiss francs. Limited noninterest-paying credit in the amount of 10 million Swiss francs has been stipulated for the clearing operations. Letter of credit or payment against the settlement documents submitted are used for making settlement.

In December 1949 the Association of Swiss Banks and the Zhivnostenskiy Bank concluded a credit agreement in the amount of 30 million Swiss francs, to be paid off in 1954, for the purchase of industrial equipment.

Trade relations also link People's Democratic Czechoslovakia with Sweden. The first trade agreement between the 2 countries was concluded on 18 November 1945. It was prolonged every year until 1953, and then ceased to be in effect. Only in 1955 did the 2 countries sign a new trade agreement, to be in effect from 1 August 1955 through 31 October 1956.

Sweden exports to Czechoslovakia ball bearings, industrial equipment, and certain consumer goods, and imports from Czechoslovakia

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sugar, commodities of the chemical industry, textiles, footwear, ceramic articles, motor vehicles, motorcycles, etc. The settlements between the 2 countries are made according to the clearing system, which until 1955 was conducted in national currencies, but a 1955 agreement established a system using one account in Swedish kronas.

In May 1954 Czechoslovakia concluded her first yearly trade agreement with France which was later prolonged to the first half of 1955. In June 1955 both countries signed a new trade agreement to run until 30 July 1956. France delivers to Czechoslovakia certain types of raw material and industrial equipment, and receives in exchange machinery, coke, chemical products, cellulose, and consumer goods. For making settlements a payment agreement has stipulated the opening of 2 accounts in the banks of those countries: one in the Czechoslovak korunas and one in French francs. The settlement rate of exchange is established at the level of gold parity. The balance of the account is paid off in gold or free currency.

Trade between Czechoslovakia and the Netherlands is developing successfully. The volume of their commodity turnover in 1954 was 60% more than in 1953, and in 1955 was an additional 28% more than in 1954 (Chekhoslovatskiy ekonomicheskiy byulleten', No 305, 1956, page 10).

Czechoslovakia exports to the Netherlands lumber, cellulose, and machine equipment, and imports nonferrous metal alloys and semifinished goods, rayon, fur, chemical semifinished goods, diamonds, medicinal oils, etc.

Trade ties between Czechoslovakia and the German Federal Republic began to be strengthened in 1953. The commodity turnover of the 2 countries is increasing every year and in 1955 surpassed the 1954 level by 12% (ibid.). An agreement on payment has stipulated credit through a clearing system in the amount of 54 million new Czechoslovak korunas, and this makes it possible for Czechoslovakia to purchase commodities with long delivery periods.

In 1949 a 5-year trade and payment agreement was concluded between Czechoslovakia and Great Britain. During the ensuing years their commodity turnover increased considerably, chiefly that turnover involving the countries of the British empire. But in 1953 the Czechoslovak trade with Great Britain ceased. The trade relations of both countries have not yet been fully regulated. At the present time they are expressed only in the concluding of individual trade transactions.

Czechoslovakia exports to Great Britain sugar, lumber, cellulose, and other goods, and imports wool, nonferrous metals, chemicals, machine tools, etc.

Until the end of 1947 Czechoslovakia had fairly broad trade and payment links with the United States. The Czechoslovak commodities -- hops, malt, furniture, wooden articles, footwear, cotton and woolen fabrics, porcelain, motorcycles, bicycles -- were in great demand on the domestic market of the United States. In exchange for these commodities the United States delivered to Czechoslovakia certain types of factory-plant equipment, raw materials, and food products.

In order to purchase raw materials and commodities in the United States, Czechoslovakia made use of short-term bank credits. But starting in 1948 certain reactionary circles in the United States carried out the policy of curtailing trade with Czechoslovakia. By the end of 1950 the trade relationships between the 2 countries were interrupted and have not yet been restored.

The Czechoslovak Republic desires to collaborate economically on conditions of mutually advantageous trade with all countries, including the United States. She has proven this by concluding trade and payment agreements with a number of capitalist states: Austria, Belgium, Italy, Denmark, Norway, Greece, etc.

Czechoslovakia does not limit herself to economic ties with the industrially highly-developed capitalist countries. With every passing year her foreign trade ties with the under developed countries of the Near East, Southeast Asia, and the agrarian states of the American continent are becoming stronger. By offering machinery and equipment to these countries, Czechoslovakia helps them to carry out their rightful aspirations to industrialize and develop their agriculture.

For example Iran has received Czechoslovak equipment for 8 sugar refineries, 2 electric power stations, a plant to produce rayon, sets of parts for 184 reinforced concrete and steel bridges, etc. Egypt is being supplied with equipment for pumping stations, powerful steam locomotives, railroad cars, bridges, etc. In Syria a combine consisting of a sugar refinery, a lump-sugar refinery, and starch plant, as well as a plant to produce glucose and alcohol, have been constructed with the aid of Czechoslovak specialists and Czechoslovak equipment. Czechoslovakia has helped Afghanistan

to build a meat combine, a sugar refinery, and a cement plant. Czechoslovak enterprises are supplying Turkey with machine tools and equipment for several textile factories.

An important place in the Czechoslovak foreign trade is occupied by countries of Southeast Asia: India, Burma, Indonesia, Pakistan, Thailand, and Ceylon. In 1955 the commodity turnover with these countries was approximately 69% more than in 1953 (Pravda [Truth], 9 March 1956).

Especially favorable conditions have been created to develop commodity exchange between Czechoslovakia and Burma and Indonesia. Commodity exchange with Burma was approximately 13 times more in 1955 than in 1953, and with Indonesia, 7 times (*ibid.*).

The large contracts concluded in 1955 for the delivery of equipment to India attest to the fact that the economic ties between that country and Czechoslovakia are expanded. The Czechoslovak plants are producing for India 2,050 railroad cars, 50 steam locomotives, equipment for a thermal electric station, and a large textile factory.

From the countries named Czechoslovakia imports cotton, tobacco, copper, iron ore, hides, lemons, oranges, and dates.

Trade is also increasing between the Czechoslovak Republic and the countries of Latin America, especially Argentina, Brazil, Paraguay, and Mexico. During the first half of 1955 the volume of trade was 52% higher than in the same period in 1954 (Chekhslovatskiy ekonomicheskiy byulleten', No 304, 1956, page 10). Czechoslovakia imports from these countries wool, hides, meat, agave fiber, cotton,

coffee, cocoa beans, and iron ore; and delivers to them machine equipment, motor vehicles, motorcycles, apparatus, medicines, textiles, footwear, etc.

The payment-settlement relations between Czechoslovakia and countries with which she does not have any treaties, and for trade and financial operations, are carried out by transferring free currency in payment (as, for example, with Canada and certain countries in Central and South America), or with the aid of separate compensatory transactions.

By developing her trade and payment relations with capitalist countries Czechoslovakia is helping to preserve lasting peace in the whole world.

4. Czechoslovak Credit Relations with the Soviet Union and the Countries of the Socialist Camp

In the system of economic mutual relations between Czechoslovakia and the countries of the socialist camp an important place is occupied by credits and loans.

Credits and loans granted by the Soviet Union to the people's democracies, by their nature and purpose, are different from the credits and loans of capitalist states, where they are used by finance magnates as one of the strongest means of enslaving and robbing the debtor countries, especially the economically under developed countries. Soviet credits and loans granted in commodity form, in gold, and solid currency are based on equal rights and mutual advantage, and accelerate the economic development of the people's democracies. In conformity with the intergovernmental agreements they, as a rule, are paid off not with gold and currency,

but in commodities which are typical of the foreign trade variety of the states of the socialist camp, and at mutually advantageous prices.

Thus the Soviet Union is a special kind of creditor, differing in principle from the creditors of the capitalist countries. The Soviet Union contributes to the universal development of the productive forces of the states receiving the credit. Thus Soviet deliveries and credits have played an important role in the rapid restoration of the national economy of Czechoslovakia. Relying upon its friendship with the Soviet Union and making use of the Soviet fraternal assistance, the Czechoslovak Republic is self-confidently moving forward along the path of socialism.

Soviet credits granted to people's democracies can be divided into 3 categories: (1) short-term credits to purchase industrial raw materials and food commodities in the USSR; (2) purely monetary credits (in gold); and (3) credits of medium-term and long-term nature to pay for industrial equipment supplied by the Soviet Union and scientific technical assistance rendered by the Soviet Union.

Only the second category of credits is purely monetary. All the other types of crediting are invariably linked with deliveries of definite commodities.

Settlements on credit are made through special accounts which are opened for one another by the State Bank USSR and the State Bank of Czechoslovakia. The procedure of making settlement and keeping accounts are established jointly.

The paying off of credits, like the payment of interest on them, is done by the commodity deliveries (in individual credit agreements it is stipulated that it is possible to pay off credits at the choice of the debtor in gold or in definite currency).

The organizing of credit relations under similar conditions is possible only between countries with a planned economy in which the law of the planned, proportional development of the national economy is in effect and foreign trade is completely subordinate to the national economic plan.

Within the framework of economic collaboration, Czechoslovakia herself grants credits to a number of the people's democracies. As a rule this credit is paid off by commodity deliveries. For example on 28 February 1951 the State Bank of Czechoslovakia granted the State Bank of Albania credit in the amount of 80 million rubles. The time for paying it off was established at 10 years, in 20 equal payments (1 January and 1 July each year). The first payment was 1 January 1956 and the last will be 1 July 1965. The interest rate for the use of the credit is 2% annually. The credit must be paid off by means of deliveries to Czechoslovakia of goods either in gold or in free currency.

According to an interbank agreement of 27 March 1950 the National Bulgarian Bank received from the National Bank of Czechoslovakia credit in the amount of 500 million Czechoslovak korunas. The interest rate was set at 3% annually, and then lowered to 2%. In 1947 Poland was granted credit in the amount of 3 billion Czechoslovak korunas, at the rate of 4 1/2% per year, to be paid off by 30 June 1952. The percentage rate on credit to Poland, as for that on credit to Bulgaria, was lowered to 2% annually. Rumania and the German Democratic Republic have also received credits.

The credit relations between the Czechoslovak Republic and the Soviet Union and the people's democracies are a new type of credit relations inherent only in the states of the socialist camp. They brilliantly reflect the foreign policy of Czechoslovakia, which is aimed at peaceful and friendly economic collaboration with all nations.

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